# Reliance Industries (RELIND)

CMP: ₹ 2394 | Target: ₹ 2480 (4%) | Target Period: 12 months

**HOLD**

September 21, 2021

## Quest to build future oriented ecosystem…

**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 and media, etc, making it a well-diversified business entity.

- On a consolidated basis, O2C and oil & gas contributed 62% to revenue, while retail, digital and others contributed 28%, 3% and 7%, respectively
- However, at the EBITDA level, O2C and oil & gas contributed 43% while retail, digital and others contributed 11%, 38% and 8%, respectively

**Key triggers for future price performance:**

- **Reliance Jio valuations catch up:** While telecom/JioFiber and some minor receipts of the enterprise segment are captured in the Reliance Jio numbers, which we have estimated, there is also an increment value accretion from the 'digital ecosystem' that will be captured at the Jio Platforms (JPL) level
- Over a period of time, Jio has transformed into a keen investor in niche companies/start-ups that have a presence in digital technologies. The company has invested over ~US$1.9 billion over the last five years. We believe these investments provide an option value in the overall opportunity and complete the digital ecosystem creation objectives
- Reliance Retail's aggressive store network expansion with consistent same store sales growth (SSSG) and improvement in operating profitability metrics has enabled it to demonstrate revenue and EBITDA CAGR of 50% and 58%, respectively, over FY16-21. Steady FCF generation would enable the company to maintain debt at lower levels and improve its ability to invest in future inorganic opportunities
- The oil to chemicals (O2C) business would be separated into a subsidiary (approval of regulatory authorities is expected to be completed soon). Stake sale to strategic global player will unlock value and enable RIL to invest in new energy verticals
- **New energy initiatives**: The company plans to invest ₹ 60000 crore on new energy and materials over the next three years. Additionally, RIL is expected to invest ₹ 15000 crore in the value chain, partnerships and future technologies, including upstream and downstream industries leading to total investment of ₹ 75000 crore in the new energy business

**What should investors do?** Long term prospects and dominant standing of RIL in each of its product & service portfolio, provides comfort for long term value creation.

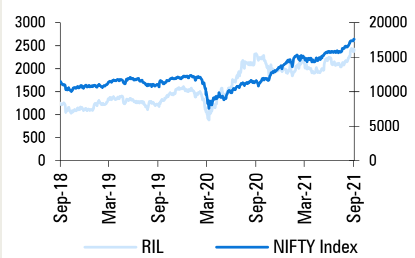
- RIL's consumer business will be the growth driver, going ahead. The company has a strong balance sheet post fund raising while its traditional business will continue to generate steady cash flows. We initiate coverage on the stock with a **HOLD** recommendation

**Target Price and Valuation:** On an SOTP basis, we value the stock at ₹ 2480/share

### Particulars

| Particular | Amount |
|---|---|
| Market Capitalization (₹ Crore) | 15,17,600.0 |
| Total Debt (FY21) (₹ Crore) | 2,92,714.0 |
| Cash (FY21) (₹ Crore) | 17,397.0 |
| EV (₹ Crore) | 17,92,917.0 |
| 52 week H/L | 2480/1830 |
| Equity capital (₹ Crore) | 6,445.0 |
| Face value (₹) | 10.0 |

### Price Performance




### Shareholding Pattern

| | Sep-20 | Dec-20 | Mar-21 | Jun-21 |
|---|---|---|---|---|
| Promoter | 50.5 | 50.5 | 50.6 | 50.6 |
| FII | 25.2 | 25.2 | 25.6 | 25.1 |
| DII | 13.2 | 12.9 | 12.6 | 13.1 |
| Others | 11.1 | 11.4 | 11.1 | 11.2 |

### Key risks

- Delay in tariff hike may affect long term ARPU growth
- Better-than-expected downstream margins leading to higher O2C profit

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Initiating Coverage

ICICI Securities – Retail Equity Research

### Key Financial Summary

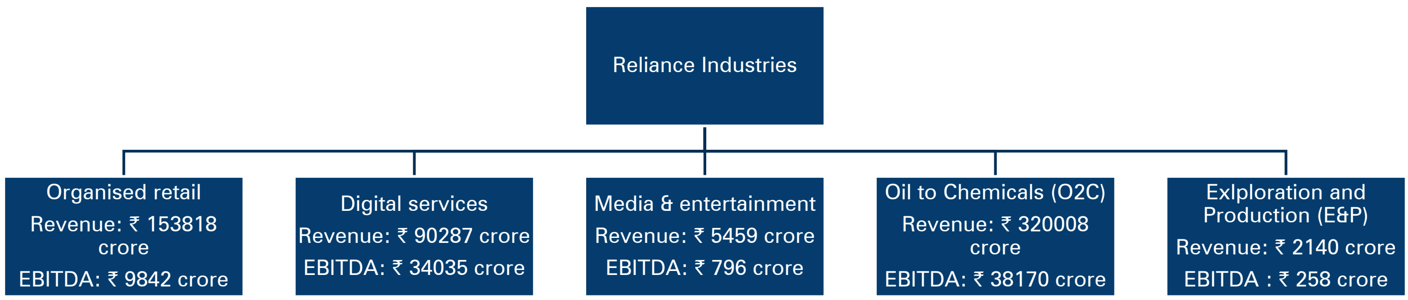
| Key Financials | FY19 | FY20 | FY21 | 5 Yr CAGR (FY16-21) | FY22E | FY23E | 2 Yr CAGR (FY21-23E) |
|---|---|---|---|---|---|---|---|
| Revenue (₹ crore) | 6,23,400.0 | 6,58,866.0 | 5,39,238.0 | 12.9 | 7,21,634.4 | 8,20,391.0 | 23.3 |
| EBITDA (₹ crore) | 83,918.0 | 88,709.0 | 80,737.0 | 14.1 | 1,14,133.0 | 1,40,567.2 | 31.9 |
| PAT (₹ crore) | 39,837.0 | 39,354.0 | 49,128.0 | 10.6 | 57,297.5 | 71,126.9 | 20.3 |
| EPS (₹) | 67.2 | 62.1 | 76.2 | | 84.7 | 105.2 | |
| P/E (x) | 35.6 | 38.6 | 31.4 | | 28.3 | 22.8 | |
| P/BV (x) | 3.7 | 3.4 | 2.2 | | 2.0 | 1.9 | |
| RoCE (%) | 8.9 | 8.1 | 5.5 | | 7.8 | 9.5 | |
| RoE (%) | 10.3 | 8.9 | 7.7 | | 8.2 | 9.4 | |

*Source: ICICI Direct Research, Company.*

## Company Background

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. RIL was the largest Indian company by revenue and market capitalisation in FY21. The company functions in the petroleum space and operates in refining & marketing, petrochemical and exploration & production. RIL also operates in growing consumer businesses like retail, digital services, etc.

Exhibit 1: Major business segments with revenue, EBITDA in FY21




*Source: ICICI Direct Research, Company*

## Digital services

### Jio – Unique play on digital ecosystem

Reliance Jio, which is the youngest telco, having commenced operations in September, 2016, has come a long way since then. As on date, it is a market leader in India with 437 million (mn) subscribers (subs) commanding 37% subscriber market share, while revenue (AGR including NLD) market share was at 39.5% as on Q1FY22. The company operates wireless services, fibre broadband (JioFiber), enterprise and is building a digital ecosystem through its suite of offerings across digital media, ed-tech, eHealth and strategic investments into other emerging technologies.

#### Background

Reliance Industries (RIL), through its subsidiary Reliance Jio Infocomm (RJIL), commenced telecom services in the country on September 5, 2016 by introducing 'Jio welcome offer'. Under this offer, it started offering 4G/LTE services 'free of cost' to its customers in the initial three months till December 2016 while the complimentary offer was later extended to March 2017. The company has achieved certain milestones i.e. 16 mn subscribers in the first month of operation, 50 mn subs in 83 days of operations and 100 mn subs in 170 days during the complimentary offering. Some of the important events in the journey are highlighted below.

Exhibit 2: Key events

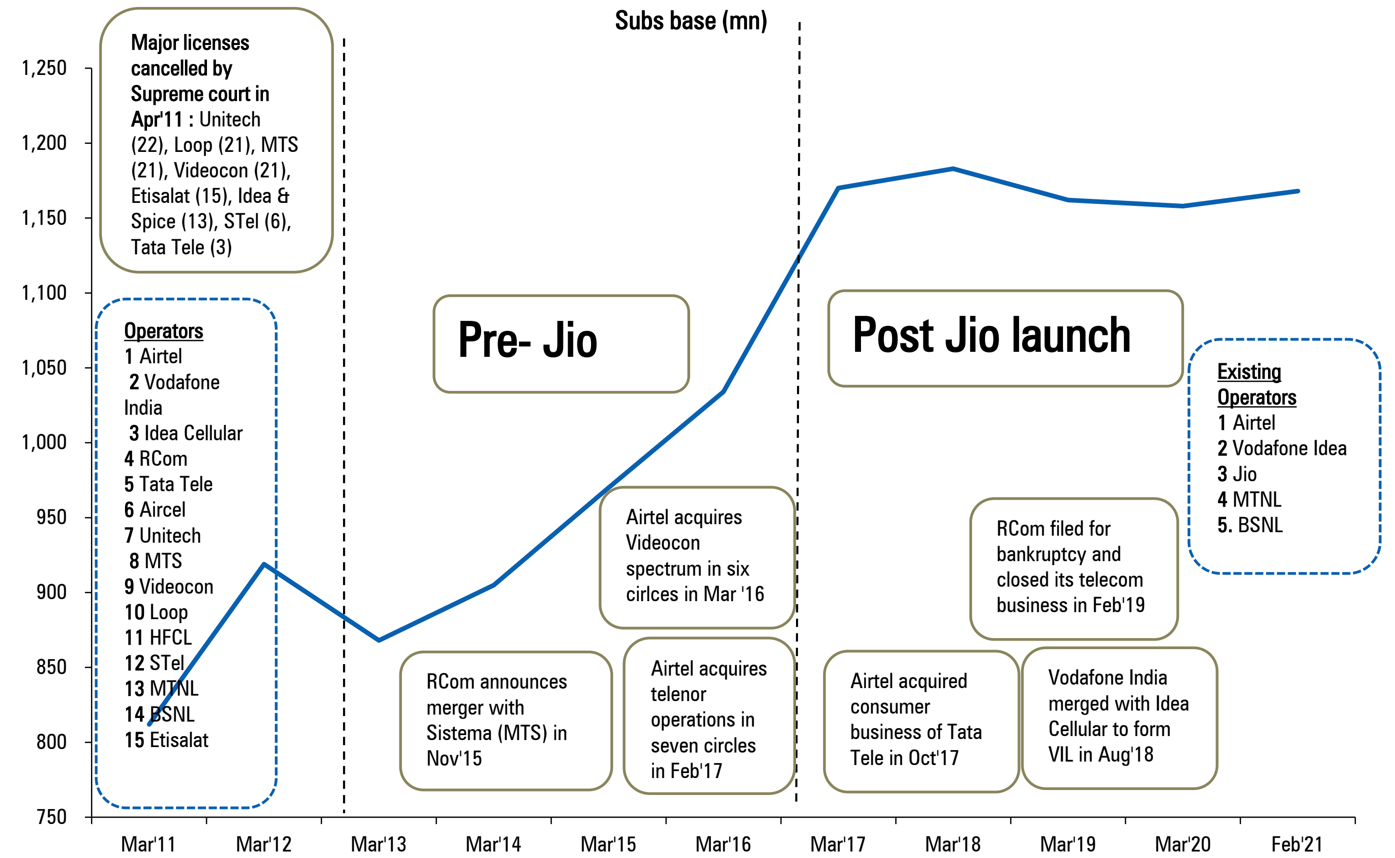
| Date | Event |
|---|---|
| September 1, 2016 | Jio commences telecom services in India offering complimentary services till December 31, 2016 |
| October 9, 2016 | Total 16 mn customers in 26 days of operations |
| October 21, 2016 | Reliance Retail launches Lyf F1 VoLTE festure phone |
| December 1, 2016 | Introduces Happy new year offer, extends complimentary services till March 31, 2017 |
| February 21, 2017 | Crosses 100 mn subs, introduces Jio Prime membership at one time fee of ₹ 99 |
| April 1, 2017 | End of complimentary period, introduces plans from ₹ 149 to ₹ 4,999 per month. Jio prime customers reach 72 mn |
| April 6, 2017 | Trai advises Jio to withdraw three months complimentary benefits of Jio summer surprise. The company starts withdrawing |
| April 11, 2017 | Jio introduces 'Jio Dhan Dhana Dhan' plans starting from ₹ 309 per month |
| December 28, 2017 | Jio announces acquisition of wireless infrastructure assets from Reliance Communications |
| January 25, 2018 | Jio introduces Jio phone, plans start at ₹ 49/month |
| February 13, 2018 | Jio announces availability of Facebook on Jio phone |
| March 23, 2018 | Jio announces integration of Jio music and Saavn |
| March 30, 2018 | Jio prime members reach 175 mn, membership benefits extended to March 31, 2019 |
| May 10, 2018 | Jio announces Jio postpaid services, plan starts at ₹ 199 per month |
| October 17, 2018 | RIL announces strategic investment in Den Networks and Hathway Cable and Datacom |
| December 11, 2018 | Demerger of tower and fibre assets into a separate company |
| June 19, 2019 | Investment of ₹ 25,215 crore by Brookfield in the units proposed to be issued by tower infrastructure trust |
| September 5, 2019 | Commencement of Jio Fibre, plans in the range of ₹ 699 per month to ₹ 8,499 per month |
| October 9, 2019 | Jio starts charging 6 paisa/minute to offnet calls |
| October 25, 2019 | RIL sets up a wholly owned subsidiary 'Jio Platforms Ltd' |
| December 1, 2019 | Jio introduces NEW ALL-IN-ONE plans, prices it 40% higher |
| June 19, 2020 | Jio Platform announces ₹ 115,693 crore investment by leading global investors |
| March 2, 2021 | Jio acquires spectrum in 800, 1800 and 2300 MHz band worth ₹ 57,123 crore, makes upfront payment of ₹ 19,939 crore to DoT |
| April 6, 2021 | Jio acquires spectrum in three circles in the 800 MHz band from Bharti Airtel through spectrum trading route |

*Source: ICICI Direct Research, Company*

## Rapid consolidation in telecom industry in last decade

The Indian telecom industry was crowded with 15 players in the market (including PSUs like BSNL, MTNL) till April 2011. The Supreme Court judgment in April 2011, with 122 license cancellations, paved the way for rapid consolidation in the Indian telecom market. Apart from that, smaller players like Etisalat, STel, Aircel eventually closed their operations given their financial stress and citing no interest from bigger operators to acquire. Other smaller players merged their operations into large telcos. Airtel took a lead in acquiring smaller players as they acquired spectrum/subs of Videocon, Tata Tele, Telenor in March 2016, February 2017, October 2017, respectively, to strengthen its position as a market leader as well as spectrum portfolio to mitigate renewal risk. Vodafone India, Idea Cellular merged their operations to form the third largest player in the space after Bharti Airtel and Jio. The Indian telecom market today has evolved to a three private player market with PSUs like BSNL and MTNL continuing to sustain with government support.

Exhibit 3: Glance at Indian telecom industry in last 10 years

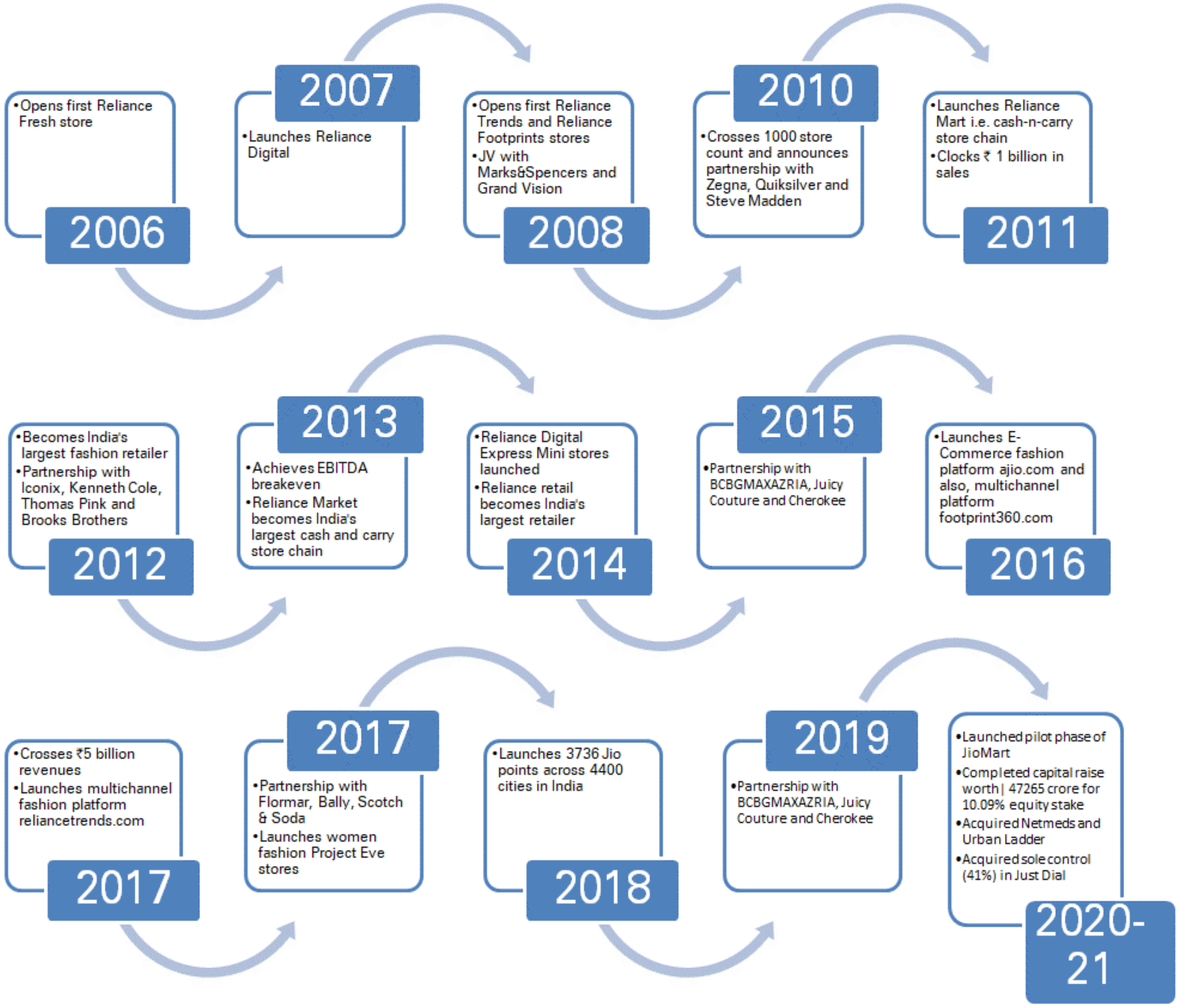



*Source: ICICI Direct Research, Company*

## Reliance Retail

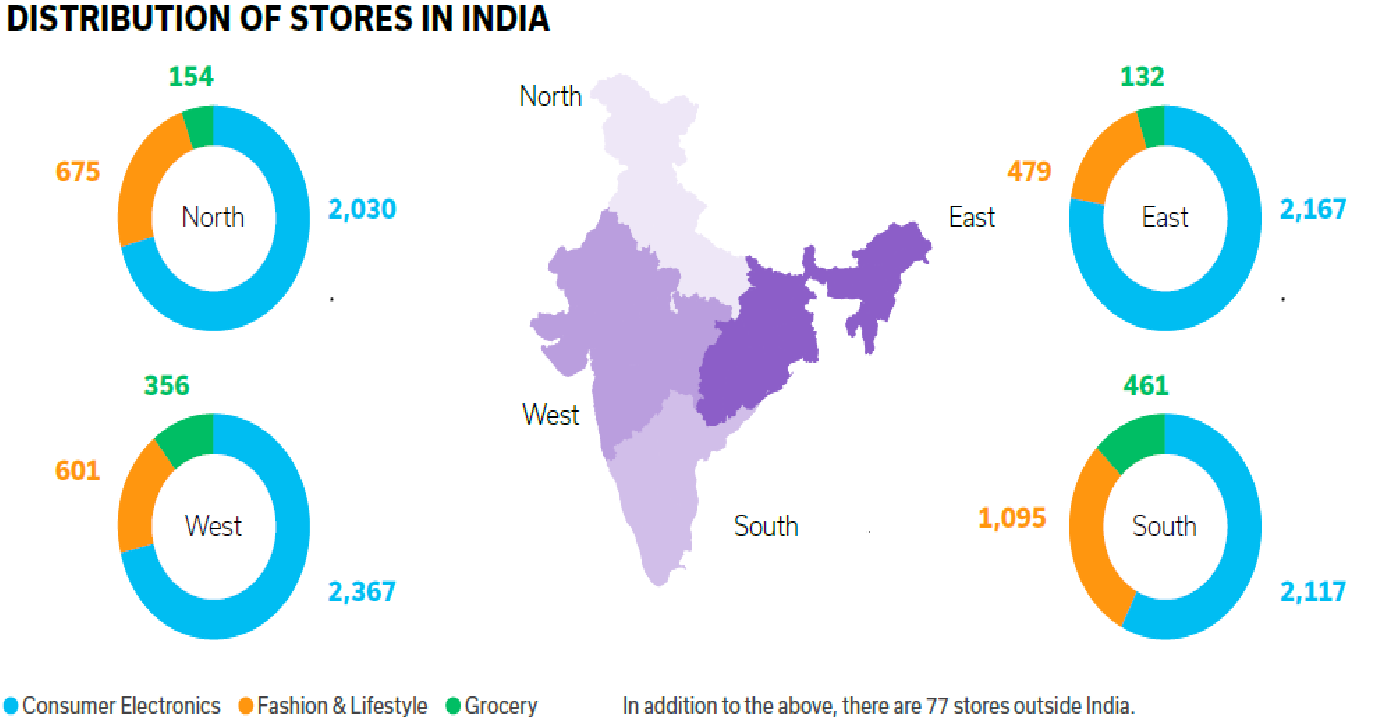
Reliance Retail Ventures, a subsidiary of Reliance Industries, is the holding company of Reliance Retail, which operates the retail business. Reliance Retail began its operations in 2006, with the opening of its first grocery store in Andhra Pradesh. Subsequently, in 2007, it set up its consumer electronics store by opening its first Reliance Digital store. Further, in 2008, it entered the fashion and lifestyle business by opening its first Reliance Trends and Footprint brand stores. The company also launched Reliance Market i.e. wholesale cash & carry store in 2011. Over the years, it has built a robust distribution network, encompassing mainly non-metro cites. **It currently operates more than 12800 stores in over 7000 cities/towns and covering a retail space of 34.5 million square feet. Of the total store network, more than two-third of the stores are located in Tier II/III/IV towns.** The furious pace of expansion has also been supplemented by higher same store sales growth. Reliance Retail has become the largest organised retailer in India and has clocked 50% CAGR during FY16-21 (core retail: 35% CAGR) to reach ₹ 1.6 trillion in revenues and 58% CAGR in EBITDA to reach ₹ 8464 crore. Recently, Reliance Retail has embarked on a journey towards transforming traditional retail through its JioMart digital commerce platform. Reliance Retail is not only India's foremost retailer but has emerged as the fastest growing retailer in the world and features among the top 100 retailers globally.

Exhibit 4: Key milestones




*Source: Company, ICICI Direct Research*

Exhibit 5: Indomitable pan-India store network




*Source: Company, ICICI Direct Research*

Reliance Retail Ventures, in FY21, completed the largest fund raising exercise in the sector by raising ~₹ 47265 crore from global marquee private equity funds including the likes of Silver Lake, KKR, Mubadala, Abu Dhabi Investment Authority, etc.

Exhibit 6: Marquee global investors acquire stake in Reliance Retail

| Investor | ₹bn | US$ Bn | % stake |
|---|---|---|---|
| Silver Lake (1st Tranche) | 75.0 | 1.0 | 1.6 |
| KKR & Co | 56.0 | 0.8 | 1.2 |
| General Atlantic | 37.0 | 0.5 | 0.8 |
| Silver Lake (2nd Tranche) | 19.0 | 0.3 | 0.4 |
| Mubadala | 62.0 | 0.9 | 1.3 |
| GIC | 55.0 | 0.8 | 1.2 |
| TPG Capital | 18.0 | 0.3 | 0.4 |
| Abu Dhabi Investment Authority | 55.0 | 0.8 | 1.2 |
| Saudi PIF | 96.0 | 1.3 | 2.0 |
| **Total** | **473.0** | **6.4** | **10.1** |

*Source: Company, ICICI Direct Research*

## Energy business

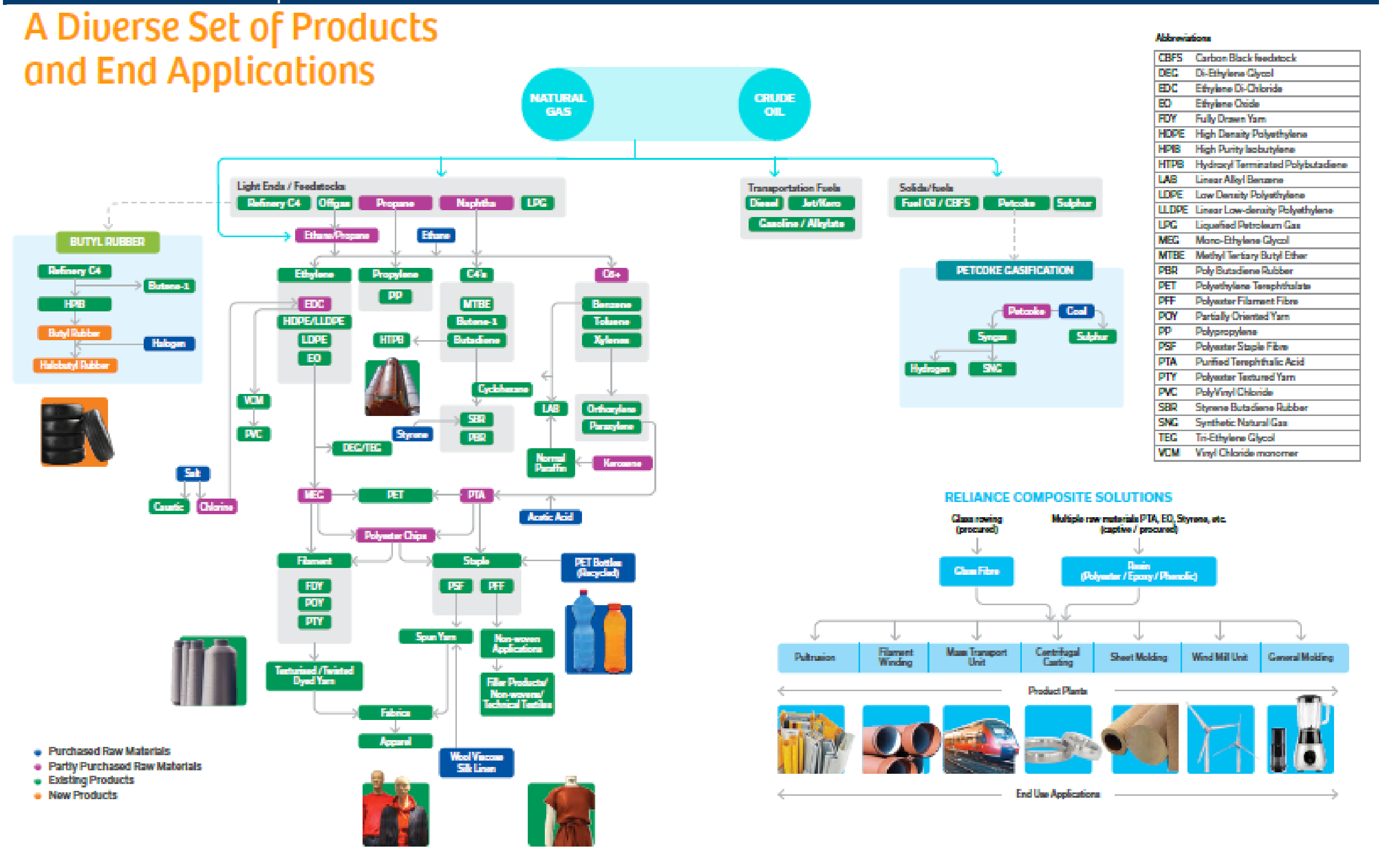
RIL started operating in the textile business when it was founded. The company later on forayed into petrochemicals through backward integration. Later on, it commissioned the world's largest grassroots refinery, Jamnagar's petrochemicals and integrated refinery complex in 2000.

### Oil to chemicals (O2C)

The company restructured its refining & marketing and petrochemicals business into oil to chemicals (O2C) in FY21. The O2C business consists of production of transportation fuels, polymers, polyesters and elastomers. On the refining front, RIL currently has crude processing capacity of 1.4 million barrels per day (MBPD) with Jamnagar being the largest single site refinery with a complexity index of 21.1. The company's installed refining capacity is the second largest in India. RIL has two refineries coupled with nine petchem production sites in India and three in Malaysia. It has been able to report a strong performance in the refining and petrochemicals segment historically on account of forward integration into various products. High operational efficiency along with superior product mix enables RIL to generate value.

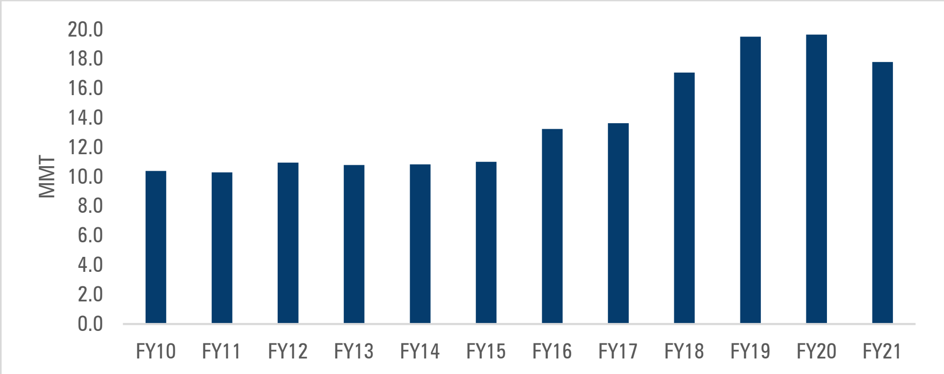
On the petrochemicals front, RIL operates in production of polymers, polyester fibre intermediates and elastomers. Historically, petrochemicals has been a major segment for RIL in terms of profitability. Revenue of the petchem segment increased at 16.3% CAGR in FY16-20 whereas EBIT grew at 25.3% CAGR during the same period. Petchem segment saw a dip in profitability during FY20-21 as FY21 saw lower demand owing to Covid-19. With an improvement in demand post the initial phase of Covid-19, petchem margins recovered during H2FY21 (especially polymer margins) mainly due to supply constraints and supported overall O2C profitability.

Exhibit 7: Glance at O2C product flow chart




*Source: ICICI Direct Research, Company*

Exhibit 8: RIL petrochemical volume




*Source: Company, ICICI Direct Research*

Exhibit 9: RIL petrochemical portfolio in FY20

| | 1 Olefin | 2 Polymers | 3 Polyesters | 4 Aromatics and Fibre Intermediates | 5 Elastomers |
|---|---|---|---|---|---|
| Description | Unsaturated open chain hydrocarbon | Large molecule with repeating subunits | Synthetic Fibres | Raw Material for polyester and textile industries, Industrial Chemicals | Polymers with rubber like elasticity |
| RIL Portfolio | Ethylene, Propylene, Butadiene | Polyethylene(PE), Polypropylene(PP), Polyvinyl chloride (PVC) | Polyester Filament Yarns (PFY), Polyester Staple Fibres (PSF), Polyethylene Terephthalate (PET) | Purified Terephthalic Acid (PTA), Monoethylene Glycol (MEG), Paraxylene (PX), Benzene (BZ) | Poly-Butadiene Rubber(PBR), Styrene Butadiene Rubber(SBR), Butyl Rubber |
| Applications/ Associated Industries | Industrial Chemicals and Polymers | Construction, Agriculture, Automobile, Consumer Goods, Packaging | Textile / Apparel Industries and Beverages | Polyester and textile industries, Industrial Chemicals | Tyres and Automobile |
| Capacities/ Global Market Position | Feedstock for petrochemical products Ethylene: 3.6 MMTA | PE: 2.3 MMTA/ 12th PP: 2.9 MMTA/ 6th PVC: 0.7 MMTA/ 17th | PFY and PSF: 2.1 MMTA PET: 1.1 MMTA/ 8th | PTA: 4.9 MMTA/ 4th MEG: 1.5 MMTA/ 8th PX: 4.8 MMTA/ 2nd | PBR: 120 KTA SBR: 150 KTA |

*Source: Company, ICICI Direct Research*

On the fuel marketing front, RIL formed a JV with BP, Reliance BP Mobility (RBML) in July 2020. RIL holds 51% share in the JV while BP acquired 49% stake based on an EV of US$2.04 billion. RBML operates under Jio-BP brand and the fuel network consists of 1419 retail outlets. The company is planning to expand the retail network to 5500 outlets in the next five years.

## Exploration and production (E&P)

RIL's E&P portfolio includes three blocks in India in which it is in partnership with BP, two coal-bed methane (CBM) blocks on its own and a JV with Ensign Natural Resources in the US. RIL's overall domestic production has declined recently as the company exited the Panna-Mukta block in FY20 post expiry of production sharing contract (PSC) and cessation of production from D1D3 field. The commencement of gas production from three new projects in the KG basin will enable RIL to increase gas production significantly. In December 2020, the company commenced gas production from R-Cluster field in KG-DWN-98/3 block in which it holds a 66.6% stake. The company has submitted a field development plan (FDP) for NEC-OSN-97/2 block to the government while the KG-UDWHP-2018/1 block is under exploration.

RIL has two CBM blocks and is producing CBM gas from the block SP (West)–CBM–2001/1. Average production from the block was 1 mmscmd in FY21. Further, the company is developing the block SP(East)-CBM-2001/1.

RIL also has a play on US shale gas through its JV with Ensign. It currently holds 49.3% stake in the block. RIL and Ensign had acquired participating interest of Newpec LLC, which exited the block in Q2FY21. RIL had acquired a stake in four US shale assets. The company has divested its stake in three of its assets and currently operates in one block.

# Investment Rationale

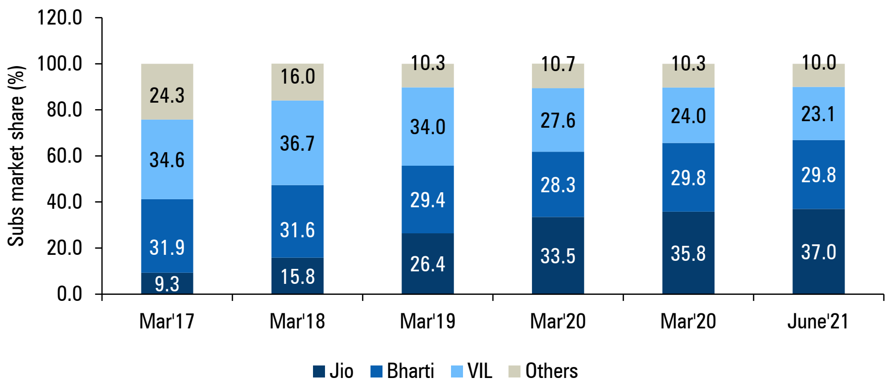
## Top two operators gaining strength

### Jio has rapidly garnered subs to become market leader

The Indian telecom industry has evolved over the years and is evolving into a two strong player (plus one weak private telco along with government entity) market. As per latest Trai data available, the telecom industry is at 1,181 mn wireless subs as of June 2021, with two large operators i.e. Jio and Bharti Airtel (including Tata, Telenor) commanding 37% and 29.8% subscriber market share, respectively. VIL (third operator) has 23.1% market share.

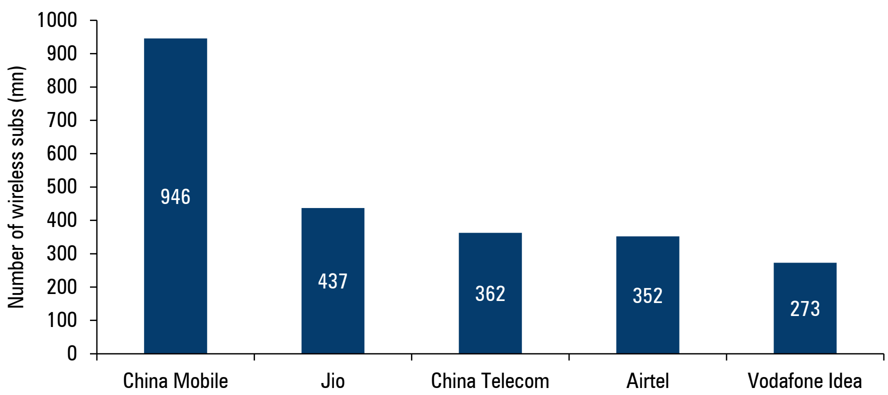
If we analyse how the market share has shaped up for Jio since its launch in September 2016, Bharti Airtel has lost 5.4 percentage points (pps) subscriber market share while VIL has seen a massive decline of 13 pps in the same period. The other operators together lost 16.8 pps market share, largely due to shutdown of a few operators like RCom and Aircel. With 37% subs market share, Jio is now the second biggest operator (behind China Mobile) in the world with over 400+mn wireless subscribers in the ***home market***. Such a massive scale has been achieved in just over four years since commencing operations.

Exhibit 10: Leadership in subs market share with 37% market share




*Source: Trai, Company, ICICI Direct Research*

Exhibit 11: Jio second largest single country operator globally after China Mobile




*Source: Trai, Company, ICICI Direct Research*

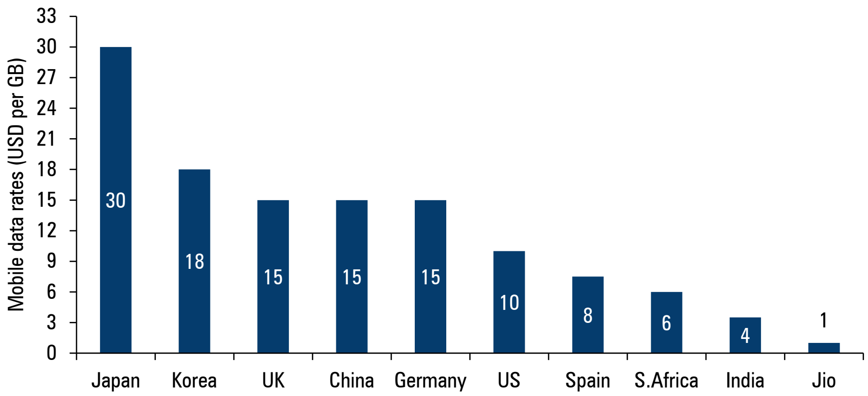
## Well rounded strategy to beat peers

### Competitive Pricing

If we analyse what led to such a massive market gain for Jio, we can point to a couple of reasons: i) dual strategy of discounted tariff and subsidised phones, ii) massive investment in spectrum and fibre, which formed the backbone of a host services, which it was planning to launch at a future date i.e. online education, medical field, etc.

Before Jio launched services in India in 2016, Indian consumers were paying minimum ~₹ 250 per month for 1 GB of mobile data while charges for other services like voice/sms were over and above the same. Voice charges were around 65-70 paisa/minute. Jio, while launching services through 'Jio welcome offer' offered free unlimited data/voice/video/Wifi and Jio apps for customers till December 31, 2016 initially, which was later extended to March 31, 2017. Even after it started charging customers after the free period ended, Jio's tariffs were 15-20% lower than peers.

Exhibit 12: Data rates globally during Jio's launch




*Source: Jio presentation, ICICI Direct Research*

## Apps ecosystem

Exhibit 13: Host of apps, which were offered to consumers during Jio welcome offer

**JioTV - Anytime is Prime Time** (JioTV)
- 350+ Live TV Channels
- 50+ HD Channels

**JioCinema – Theater at your fingertips** (JioCinema)
- 6,000 Movies, 60,000 Music Videos
- 100,000 Episodes

**JioMusic – Ultra High Definition Music** (JioMusic)
- 10 Million songs
- Caller tunes

**MyJio – One Connection** (MyJio)
- Check balance and validity
- Real-time balance transfer across connections

**JioSecurity–Protect Phone, Secure data** (JioSecurity)
- Safeguard from malicious apps, websites
- Lost/ Stolen device recovery

**JioNet – Connect to Wi-Fi** (JioNet)
- Zero touch authentication
- Navigate to nearest hotspot

**Jio4GVoice – Make phone VoLTE ready** (Jio4GVoice)
- HD quality voice on any phone
- Rich Communication Services for all

*Source: Jio presentation, ICICI Direct Research*

Exhibit 14: Host of apps, which were offered to consumers during Jio welcome offer

| | |
|---|---|
| **JioChat–Efficient way to stay connected**<br>▪ Seamless audio/ video conference calls<br>▪ Customised offers from brand channels | **JioXpressNews – Breaking News**<br>▪ News from 10+ languages, 500+ sources<br>▪ Save articles for later reading |
| **JioMags – Premium Magazines**<br>▪ Vast library of premium magazines<br>▪ Life like reading and annotations | **JioNewspaper – Your digital newsstand**<br>▪ Read newspapers from across the country<br>▪ Clip articles, get the articles read out |
| **JioMoney – Experience cashfree living**<br>▪ Transforming digital payments and commerce<br>▪ Bringing consumers and merchants closer to each other | **JioCloud – Your files one touch away**<br>▪ Secured data on cloud<br>▪ Zero Click backup<br>▪ Share files and folders, sync across devices |

*Source: Jio presentation Q2FY17, ICICI Direct Research*

### Device ecosystem

Before the launch of Jio services in September 2016, the company started investing in the device ecosystem to complement its 4G launch since there were limited 4G VoLTE supported devices available at the lower and middle price range of the pyramid. Jio, through its group firm Reliance Retail, launched *Lyf* branded handsets. Subsequently, it also launched JioPhone in January 2018, which opened up an opportunity for the company to target 500 mn feature phone users for their 2G to 4G conversion.

The outcome of this dual strategy of discounted tariff structure and investment in device ecosystem was visible in industry leading net adds for the company for most quarters till Q3FY20. It also led 4G mobile data traffic to surge 118x from 2015 to 2020 at 9,640 PB/month in December 2020.

### Massive investment in network infrastructure

The company has invested in critical network infrastructure of spectrum, BTS and fibre, which makes it stand apart.

- If we look at the spectrum portfolio of Jio and compare it with its peers, it has the highest spectrum in the **sub GHz band (800/900MHz)** and **capacity band (2300/2500MHz)** while it lags peers in terms of **mid band segment (1800/2100),** which have traditionally given their 3G offerings
- Over the years, the company has also taken the lead in terms of base stations, which are a critical part of the network infrastructure. As per Trai data available in June 2019, the company has also invested heavily in base stations whereas its base stations were almost double that of the next player. We understand that over the years Bharti Airtel has also aggressively invested in the network. Hence, the gap could have narrowed but, as per our understanding, Jio is still a leader
- Jio has invested in fibre asset with, 700K route km (rkm) of fibre followed by VIL and Bharti with 370K rkm and 314K rkm, respectively

## Investing in emerging digital technologies

Over a period of time, Jio has transformed into a keen investor in niche companies/start-ups who have a presence in digital technologies. The company has invested over ~US$1.9 billion over the last five years. We believe these investments provide an option value into the overall opportunity and completes the digital ecosystem creation objectives.

Exhibit 15: Jio's strategic investments

| Company | Date | Stake (%) | Deal value ($mn) | Details |
|---|---|---|---|---|
| Netmeds | Aug-20 | 100% | 83 | Acquired ~60% stake in the equity share capital of Vitalic and direct 100% equity ownership of its subsidiaries, viz: Tresara Health Private Limited ("THPL"), Netmeds Marketplace Limited ("NML") and Dadha Pharma Distribution Pvt Limited ("DPDPL"). Netmeds is an online pharmacy platform. |
| SkyTran | Apr-20 | 26% | NA | Increased its ownership from 17.37% to 26.31% by acquiring ~8.9% of additional stake |
| Saavn | Feb-20 | 94% | 91 | Increased its ownership from 83.5% to 94.4% by acquiring 10.9% of additional stake |
| eDreams Edusoft Pvt Ltd (Funtoot) | Dec-19 | 91% | 10 | Funtoot, an education technology company is engaged in the business of developing e-learning products and providing practice, testing and analysis modules to the students appearing for K-12 for the subjects of mathematics and science. |
| Asteria Aerospace Pvt Ltd | Dec-19 | 52% | 3 | Asteria is a full-stack drone technology company with in-house drone manufacturing capabilities and offers software solutions to provide actionable insights from aerial data. |
| NowFloats Technologies | Dec-19 | 85% | 20 | Nowfloats offers SaaS solutions to Small and Medium Enterprises (SMEs) that enable them to get a digital presence. |
| SkyTran | Nov-19 | 17% | NA | Increased its ownership from 12.7% to 17.37% by acquiring ~4.7% of additional stake. |
| Shopsense Retail Technologies Pvt.Ltd. (Fynd) | Aug-19 | ~87.6% | 6 | Fynd is a software technology company providing platform and solutions to merchants to manage their inventory and sales across multiple channels |
| Haptik Infotech Pvt Ltd (Haptik) | Apr-19 | 87% | 100 | Haptik is one of the world's largest conversational AI platforms. The company focuses on key customer engagement use cases such as customer support, concierge, lead generation and live chat |
| Grab A Grub Services Pvt Ltd ('Grab') | Mar-19 | ~83% | 20 | Grab is a logistics services platform company. It provides technology enabled, asset light logistics services for various verticals. |
| C-Square ( Pharma Retail solutions) | Mar-19 | ~82% | 11 | C-Square provides software solutions with specific focus on pharma sector for various stakeholders including C&F, distributors, retailers, online ecommerce, sales force automation, etc. |
| SankhyaSutra Labs Pvt Ltd | Feb-19 | 83% | 30 | SankhyaSutra Labs (SSL) is a High-Performance Computing (HPC) software simulation services company. SSL is focused on simulation services for manufacturing and Industrial companies like - |
| Surajya Services Pvt Ltd ("Easygov") | Feb-19 | 76% | 10 | Easygov is focused on citizen centric software solutions and services that help in improving convenience to people in accessing and digitally applying for Government to Citizen (G2C) schemes and services |
| Reverie Language Technologies | Feb-19 | 83% | 37 | Reverie is engaged in the business of developing end-to-end voice technology stack for delivering a complete multilingual user experience. |
| NEWJ | Nov-18 | NA | 1 | NEWJ's business focus areas are production and curation of content for the emerging social and digital media ecosystem |
| Hathway | Oct-18 | 72% | 595 | Hathway Cable and Datacom is one of India's largest multisystem operators (MSOs) and is a leading provider of cable television and cable broadband services |
| Den | Oct-18 | 78% | 387 | DEN Networks Limited is an India-based cable television company engaged in distribution of television channels through analog and digital cable, and provision of broadband service. |
| SkyTran | Oct-18 | 13% | 25 | SkyTran is focused on developing technology in the field of Personal Rapid Transit Systems. SkyTran, which has partnered with NASA in the US and Israel Aerospace Industries (IAI) in Israel, has developed |
| Radisys | Jun-18 | 100% | 75 | Radisys delivers value to service providers and telecom equipment vendors by providing opencentric software, hardware and service capabilities that enable the migration to nextgeneration network |
| Indiavidual Learning Pvt Ltd (Embibe) | Apr-18 | 73% | 180 | Embibe is an artificial intelligence platform that facilitates test taking and claims to improve performance in competitive exams. |
| Saavn | Mar-18 | 82% | 122 | Saavn is India's leading digital music service, with collection of 45 million Bollywood, English, Hindi, and Indian regional songs. |
| KaiOS Technologies Inc (KTI) | Mar-18 | 16% | 7 | KaiOS Technologies Inc is a developer of light operating systems for smart feature phones such as JioPhone. |
| Eros International PLC | Feb-18 | 5% | 47 | Eros is a leading global company in the Indian film entertainment industry that acquires, coproduces and distributes Indian films across all available formats such as cinema, television and digital new media. |
| Infibeam | Feb-18 | ~0.4% | 6 | Infibeam Inc is a online retailer in India. Infibeam offers cloud based ecommerce platform service in B2C and B2B verticals |
| Balaji Telefilms | Jul-17 | 25% | 64 | Balaji Telefilms is a content producer operating across television, films and digital platforms. It also operates an ad-free, subscription-based online streaming service, ALTBalaji, with 32 original shows in |
| Netradyne Inc | Jun-16 | 37% | 16 | NetraDyne is a high-end technology driven product, deep learning solutions and vision based analytics business with focus on verticals such as fleet management, automotive, security and surveillance. |

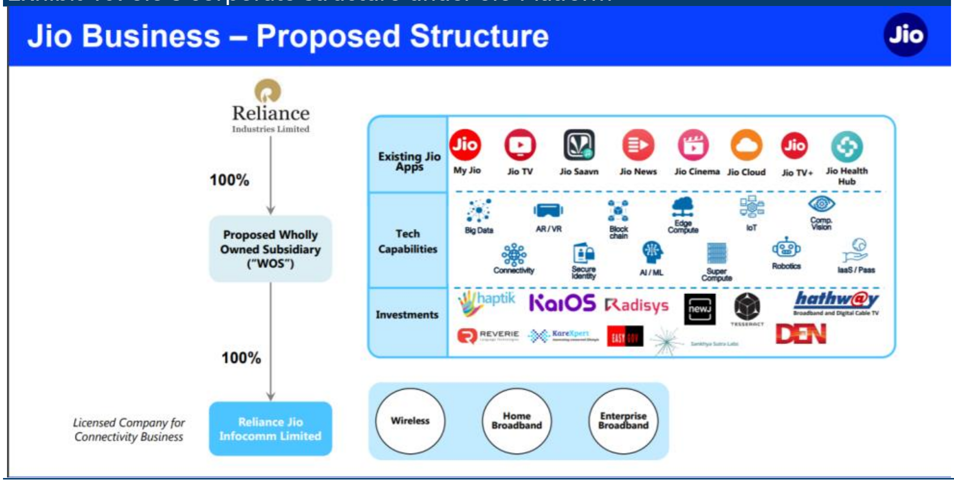
*Source: ICICI Direct Research, Company*

## Marquee investors/tech giants repose faith with investments

RIL on October 25, 2019 (Link) formed a wholly owned subsidiary Jio Platform (JPL) wherein Reliance Jio Infocomm (RJIL) is a 100% wholly owned subsidiary of JPL. The company consolidated all its digital assets comprising i) existing apps like Jio TV, Jio Saavn, Jio news, Jio health club, etc, ii) tech capabilities that it has developed in terms of artificial intelligence (AI), machine learning, big data analytics, IoT, robotics, etc iii) investments made recently in companies like Den Networks, Hathway, Raidisys, Haptik, Kaios, etc. RIL has invested ₹ 1,08,000 crore in JPL through a rights issue of optionally convertible preference shares (OCPS).

The marquee investors/tech giants reposed their faith with investments worth ₹ 115,694 crore as a subscription amount for JPL. The investors include tech giants like Google, Facebook as well as marquee investors such as KKR, Vista equity/Saudi PIF, etc.

Exhibit 16: Jio's corporate structure under Jio Platform




Source: Company, ICICI Direct Research

Exhibit 17: Jio Platform – stake sale details

| ₹ crore | Investment | Stake (%) | Date | Equity value |
|---|---|---|---|---|
| Facebook Inc | 43,574 | 10.0 | Apr-20 | 4,36,176 |
| Silver Lake | 5,656 | 1.2 | May-20 | 4,90,000 |
| Vista Equity | 11,367 | 2.3 | May-20 | 4,91,000 |
| General Atlantic | 6,598 | 1.3 | May-20 | 4,91,000 |
| Mubadala | 9,094 | 1.9 | May-20 | 4,91,000 |
| KKR | 11,367 | 2.3 | May-20 | 4,91,000 |
| Silver Lake & associate | 4,547 | 0.9 | Jun-20 | 4,91,000 |
| ADIA | 5,684 | 1.2 | Jun-20 | 4,91,000 |
| TPG | 4,547 | 0.9 | Jun-20 | 4,91,000 |
| L Catterton | 1,895 | 0.4 | Jun-20 | 4,91,000 |
| Saudi PIF | 11,367 | 2.3 | Jun-20 | 4,91,000 |
| Intel Capital | 1,895 | 0.4 | Jul-20 | 4,91,000 |
| Qualcomm Venture | 730 | 0.1 | Jul-20 | 4,91,000 |
| Google | 33,737 | 7.7 | Jul-20 | 4,36,176 |

Source: Jio presentation, ICICI Direct Research

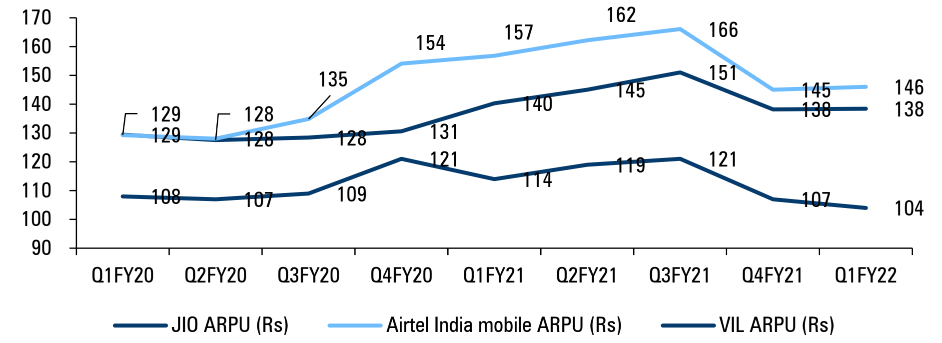
Bharti Airtel, on the other hand, also announced a new corporate structure to sharpen its focus on digital. The company consolidated all its digital assets including Wynk Music, Airtel X stream, Airtel Thanks, Mitra Payments platform, Airtel Ads, Airtel IQ, Airtel Secure, Airtel Cloud and all future digital products under the current listed company Bharti Airtel. The company also created a new wholly owned subsidiary 'Airtel Ltd', which will house all existing business. i.e. India wireless, DTH, enterprise, broadband, etc. Internal business and JVs will continue to operate under the existing structure. We believe this move will help in i) clearly identifying regulated and unregulated entities, ii) unlocking the potential of its digital business albeit the business is at nascent stage currently. We believe the business will take a few more years to scale up before the company looks to unlock the value.

## Jio ARPU growth trajectory impacted by JioPhone, IUC impact

If we look at the ARPU trajectory for Bharti Airtel's mobile business and Jio for the last nine to 10 quarters, Jio has clearly been lagging behind with respect to Airtel. We understand that one of the major reasons could be higher contribution of JioPhone in the base of Jio, which are low ARPU customers i.e. plans start at as low as ₹ 49/month. Though Jio does not disclose JioPhone numbers separately, media reports (Link) suggested Jio had 100 mn JioPhone subs as on Q1FY21. On the other hand, Airtel had been vocal in their quarterly conference calls indicating they are not looking to compete with Jio in feature phone segment by subsidising handsets. Rather, their focus has been on converting their 2G base to 4G, a key driver for ARPU growth. **Going ahead, launch of Jio Phone Next will be key catalyst for ARPU growth for Jio as it upgrades its existing JioPhone users as well as incremental subscribers from the incumbent's 2G base.**

We also note that as per Trai regulations, IUC charges from January 1, 2021 became zero, which had an impact of 10-15% on reported ARPU of operators from Q4FY21 onwards.

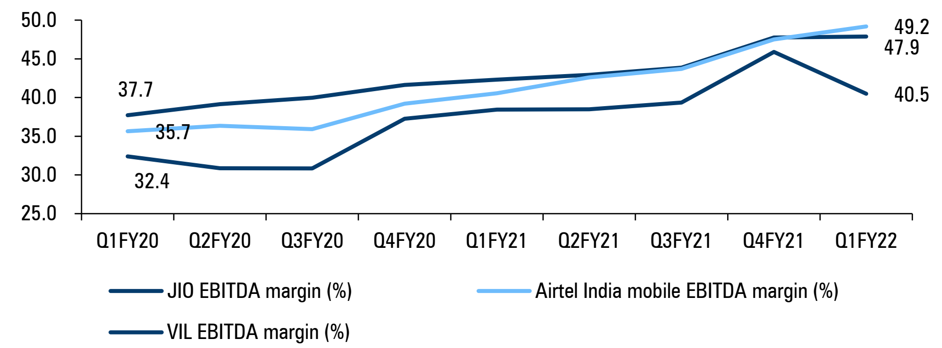
Exhibit 18: ARPU trend for peers




*Source: ICICI Direct Research, Company*

Even in EBITDA margins trend, the overall expansion in margins of Jio has lagged Airtel.

Exhibit 19: EBITDA margin trend for peers

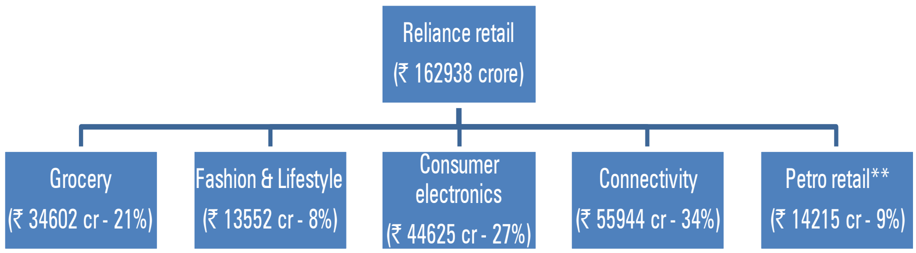



*Source: ICICI Direct Research, Company*

## Consolidating its position as strong player in retail segment

Reliance Retail derives its revenues from broadly five business verticals, a) grocery b) fashion & lifestyle, c) consumer electronics, d) connectivity and e) petro retail. Of the five businesses, the company identifies the first three verticals as core retail businesses. Each category has its deep business moats, with store concepts spanning across all major consumption baskets, which account for over 80% of consumption needs of Indian households. In terms of profitability, the fashion and lifestyle business enjoys healthy EBITDA margins (20%+), followed by the grocery division that yields EBITDA margins of ~6-7%. The core retail businesses contribute 85% of overall EBITDA.

Exhibit 20: Business segments (as on FY20)



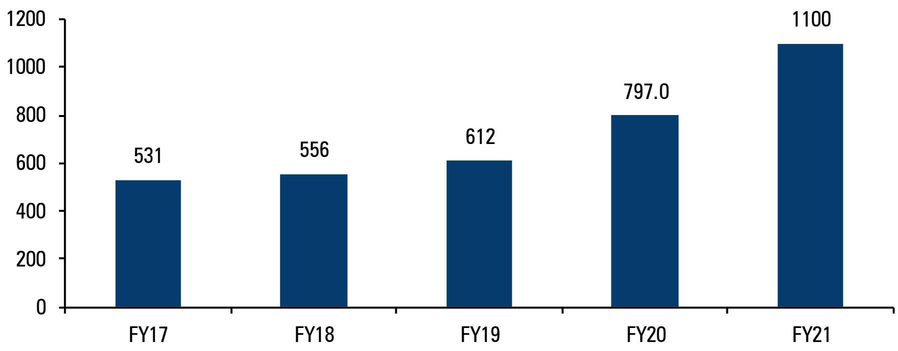

*Source: Company, ICICI Direct Research. ** Petro Retail no longer part of retail division from Q3FY21 onwards*

## Fortifying leadership position in India's grocery segment:

Reliance Retail is India's largest grocery retailer with 1100 stores across 108+ towns and cities. Reliance Retail's farm to fork model with interventions at the farm level to procure fresh fruits and vegetables every day from farmers ensures direct control over product quality with sourcing benefits and stronger consumer value proposition. It operates via three brands **a) Reliance Fresh (B2C):** Neighbourhood stores, offering daily necessity items such as fruits, vegetables, cereals, etc. **b) Reliance SMART (B2C):** Offers low prices on daily necessity items, general merchandise, apparels, etc. The stores are typically smaller than Reliance Fresh and promise 365 days' savings. SMART Point, a neighbourhood store concept took less than 45 days from design conceptualisation to launch during which 18 stores were opened across Thane, Navi Mumbai and Kalyan in Maharashtra. **C) Reliance Mart (B2B)**: It operates ~52 stores in 46 cities and is targeted towards institutional clients (Kirana stores, hotel/restaurant/café, etc). The store sizes are in the ~50000 sq feet range and include provision of last mile delivery to clients (the company in Q3FY21 transitioned its Reliance Market store concept to fulfilment centres).

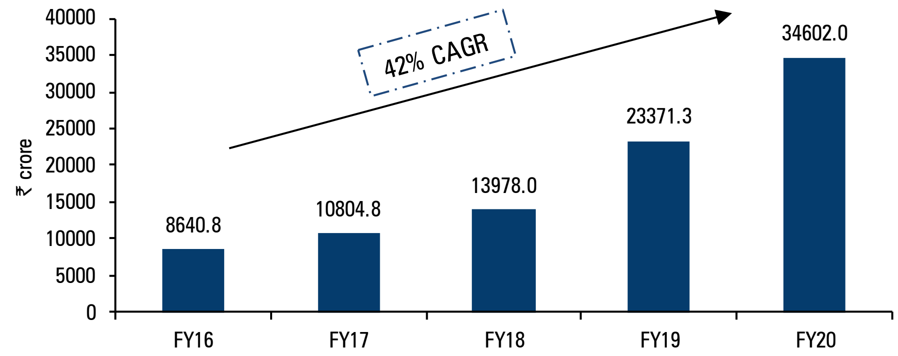
In Q4FY20, Reliance Retail launched the pilot phase of **JioMart** across 200 cites, mainly focusing on Tier II cites. It provides an omni-channel experience to consumers who can place orders through alternative ways including WhatsApp, which will be served by merchant partners. JioMart acts as a centralised procurement and delivery platform between manufacturers and merchant partners. It is building extensive Kirana partnerships to help them procure groceries via its organised B2B channel and leverage those partnerships to fulfil e-grocery demand as well. Kirana partnerships have now been extended to 33 cities and JioMart continues to grow scale with more traffic, active users and orders. Within a few weeks of launch, JioMart had already delivered over 4,00,000 orders in a single day, which is significantly higher than other e-grocery players. The company is augmenting fulfilment capacities in 200+ cites and has also transitioned its Reliance Market store concept to fulfilment centres.

Exhibit 21: Reliance grocery stores addition trend



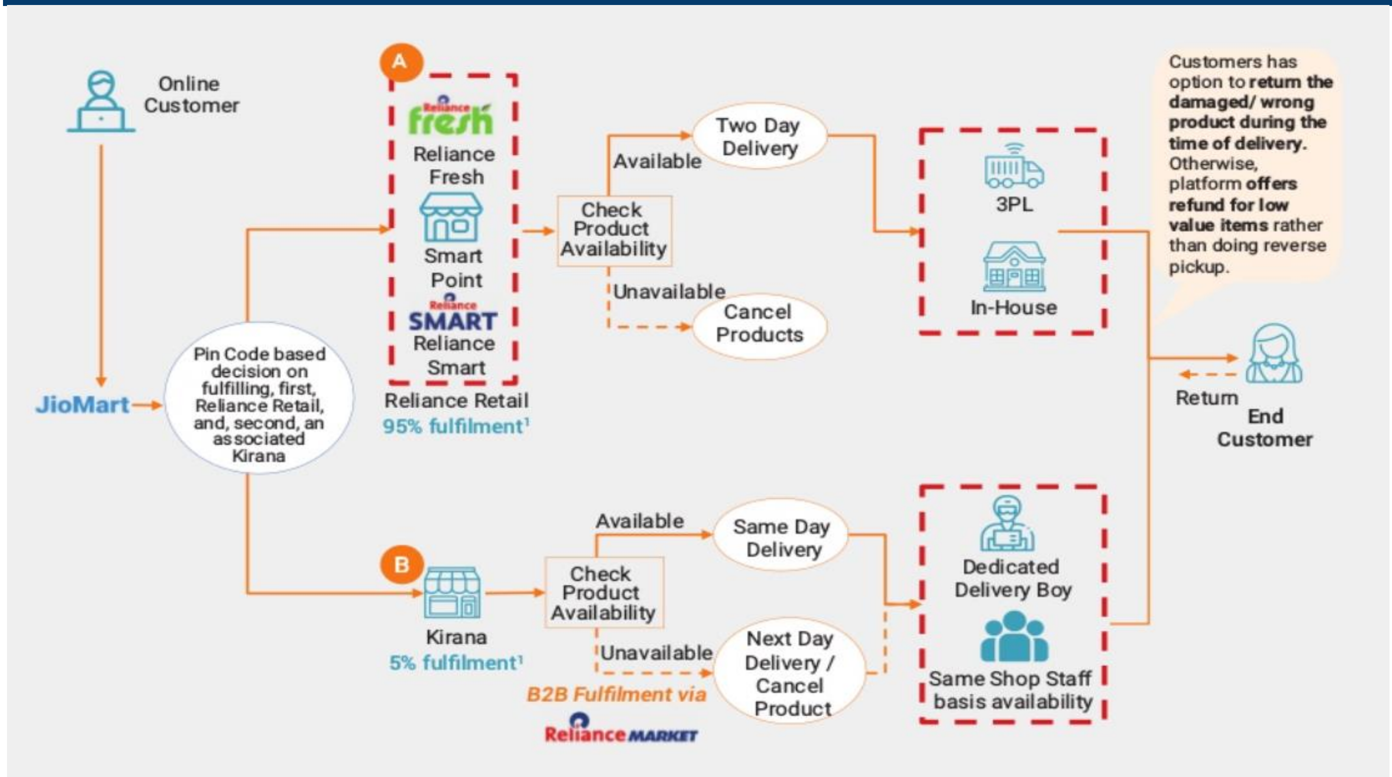

*Source: Company, ICICI Direct Research. Reliance Fresh includes Reliance Smart stores as well*

Exhibit 22: Grocery segment has grown at 42% CAGR during FY16-20




*Source: Company, ICICI Direct Research*

Exhibit 23: JioMart business model




*Source: Redseer, Company, ICICI Direct Research*

## Fashion & Lifestyle: Powerhouse of brands

Reliance Retail's Fashion and Lifestyle is India's largest fashion hub. It enjoys a vantage position in its product portfolio built over wide offerings across price points (mass to luxury), broad categories (men's, women's and kidswear & accessories) and diversified distribution channels (MBO+EBO+SIS). Spread across 2950+ stores in 450+ cities, Reliance Retail has expanded its store addition at a robust pace, especially pertaining to unserved markets (non-metro cities). Reliance Retail operates multiple specialty store concepts and formats such as Reliance Trends, Reliance Footprint, Reliance Jewels, Project Eve and Ajio.com. Furthermore, the company has exclusive franchise agreements/JV with various international luxury brands.

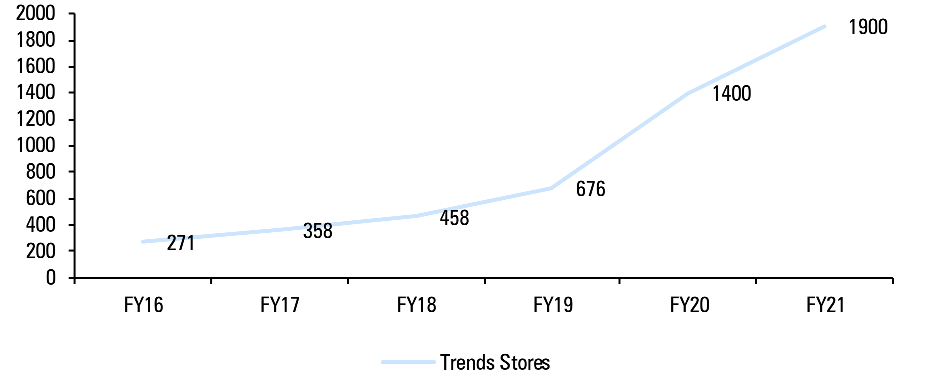
Exhibit 24: Reliance Retail Fashion & Lifestyle pyramid


*Source: Company, ICICI Direct Research*

a) **Reliance Trends**: Trends is Reliance Retail's flagship fashion concept positioned in the value segment built on the principle of democratising fashion for aspiring Indian consumers. The store addition rate has been phenomenal (highest in industry) wherein the company added 1000+ stores in FY16-21 taking total store count to over 1900. To further penetrate in Tier III/IV towns, it launched 'Trends Small Town' store concept with store size ranging at ~5000 sq ft. Trends Small Town concept has been well received and has scaled up to 240 stores across 200+ towns in a short time. The company houses several in-store brands like Avaasa, DNMX, Netplay, Performax, Teamspirit, with private label brands contributing ~ 75% to Trend's revenue. Many private label brands have an annual turnover of over ₹ 500 crore making them comparable to many national, international brands operating in the market. Trends sources its own fabric and gets designs manufactured through hundreds of vendor partners across India and international markets. This translates into fresh fashion across stores on a regular basis. b) **Reliance brands:** With a portfolio of over 46 revered international brands, Reliance Brands operates the largest portfolio of premium and luxury brands in India. The company has exclusive franchise agreements/JV with various international luxury brands and has a presence in more than 650 stores. c) **Reliance Footprints** is a leading multi-brand footwear chain offering over 50 prominent international, domestic and in-store brands. The store offers a wide collection of products across footwear, luggage, handbags and accessories. d) **Reliance Jewels** offers exquisitely crafted gold, diamond, bridal jewellery and ornaments for special occasions and daily wear with a healthy mix of traditional and contemporary designs. Reliance Retail recently partnered with iconic US-based luxury jeweller Tiffany & Co to open a line of stores in India.

A diversified presence across a vast array of fashion and lifestyle consumption categories would enable it to garner higher share of the consumer wallet that is likely to entail sustained revenue growth for its fashion and lifestyle vertical.

Exhibit 25: Trends store continues to expand reach by healthy store additions

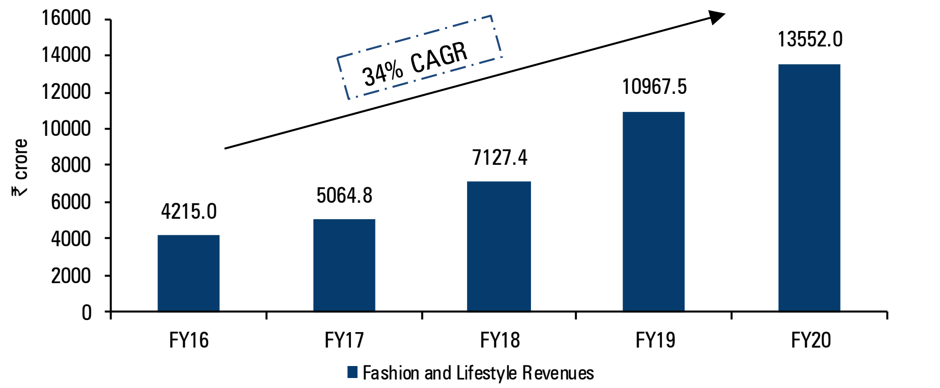



*Source: Company, ICICI Direct Research*

Exhibit 26: Reliance Retail exclusive brand partnership


*Source: Company, ICICI Direct Research*

Exhibit 27: F&L segment has grown at 34% CAGR during FY16-20




*Source: Company, ICICI Direct Research*

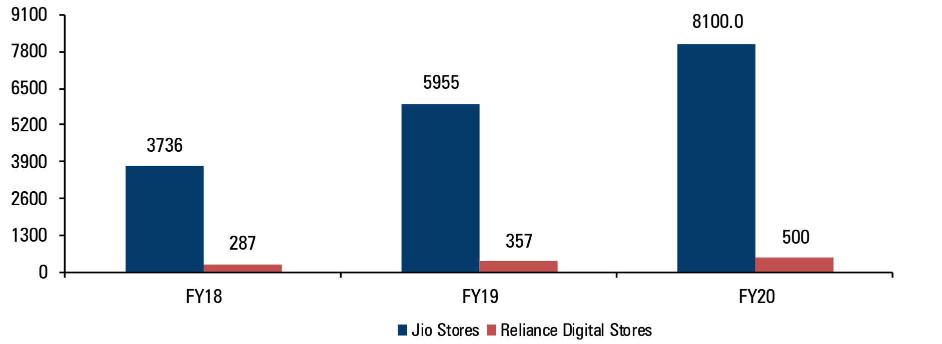
Fashion & lifestyle was among the worst hit category owing to pandemic induced lockdowns with footfalls declining ~90% in Q1FY21. However, inherent strength of the brands and capability to leverage its online channel in a short span of time resulted in a rapid recovery for the segment. Revenues in the fashion & lifestyle segment surpassed pre-Covid levels in Q3FY21 and recorded its all-time high revenues in Q4FY21. The company has witnessed 5x YoY growth in Ajio orders and also scaled up hyperlocal deliveries through JioMart at >3000 pin codes. Almost all Trends and Footwear stores are omni-channel enabled vs. 30% in pre-Covid.

## Consumer electronics leader with differentiated store concepts

Consumer electronics & connectivity represent the highest contribution to the revenues of Reliance Retail. In the consumer electronics segment, Reliance Retails' presence in the consumer segment is via three entities a) **Reliance Digital:** It is the largest consumer electronics chain in India with 500+ stores in 166 cities, with 200+ national, international brands. It also has a portfolio of in-store brands such as 'Reconnect', 'JioPhone' and 'Lyf' brands. The stores are located on high streets and malls. b) **Jio stores:** Operates as a small concept stores in 7000+ towns and is focused on offering communication devices and Jio services. It also acts as an extended arm of Reliance Digital, offering products through catalogue and web services. c) **Reliance resQ** (ISO certified): It is the full-fledged service arm of Reliance Digital and provides multi-product and multi-location service network.

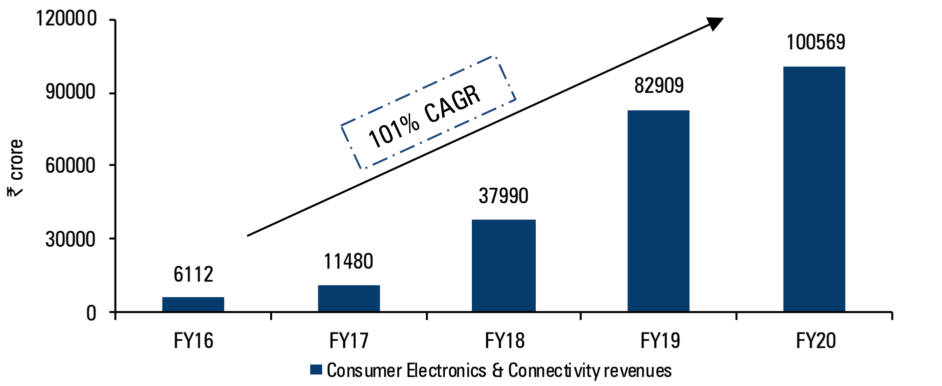
**Reliance Connectivity** primarily functions as a retail shop for the Jio business of Reliance Industries (recharges for Jio customers and customer acquisition) and functions through a network of 8100 stores and a million retailers. Reliance Retail works as the master distributor for Jio connectivity services.

Exhibit 28: Reliance Digital stores and Jio stores




*Source: Company, ICICI Direct Research*

Exhibit 29: Consumer electronics & connectivity grows at 101% CAGR in FY16-20




*Source: Company, ICICI Direct Research*

The consumer electronics segment had been severely impacted in the initial part of the lockdown due to the impact of the pandemic owing to multiple issues like lower demand in lockdown phase (lower customer footfalls) and continued supply chain disruption in Jio Devices. However, excluding Jio devices, the company has been able to report double digit revenue growth from Q2FY21 onwards in the consumer electronics segment on the back of broad based growth across categories like laptops and tablets, HETVs, air care and appliances. During Q4FY21, the company has relaunched Jio Phone, which would bolster device sales, going forward. Strategically, the entire network of Digital stores has been made omni channel enabled while ~ 88% of deliveries from stores have been within a delivery time of less than six hours. This exemplifies the agility of the consumer delivery process enabling the capture of potential demand with a shortened lead time.

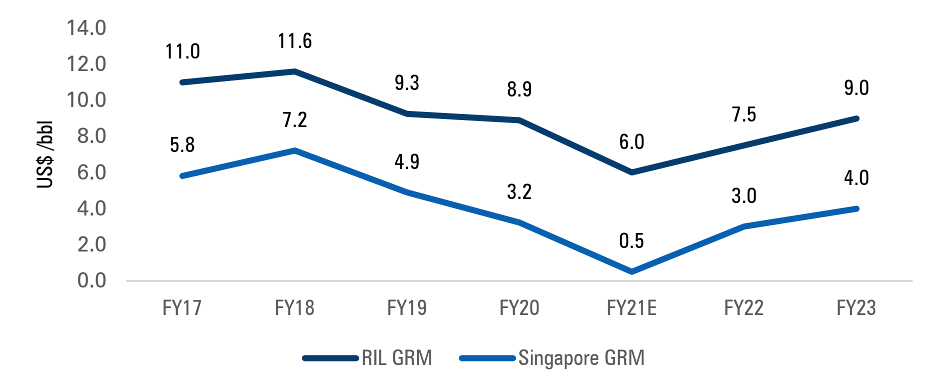
## Improving O2C profitability, stake sale to add value

The O2C segment has traditionally been an important driver in RIL's profit mix. However, due to the Covid-19 pandemic, the O2C segment was impacted on account of demand destruction as well as lower realisation in H1FY21 for major products. With the opening of the global economy, we expect demand revival and improved margins, which will benefit integrated O2C value chain.

### Global refining product cracks reviving

RIL's refining margins (GRMs) have outperformed benchmark Singapore GRMs due to its higher complexity. RIL's GRMs have outperformed Singapore GRMs by US$4.4-5.5/bbl over the past few years on an annualised basis and were trending at US$9-11/bbl before Covid-19. Demand destruction led Reliance GRMs to decline to US$5.2-6.5/bbl over the last year. With a recovery in global demand and subsequent improvement in product cracks (mainly diesel), we expect RIL's refining margins to be back to healthy levels of US$9/bbl in FY23E.

Exhibit 30: RIL GRM trend vs. Singapore benchmark GRMs




*Source: Company, Reuters, ICICI Direct Research, RIL FY21E GRMs as per internal estimates*

### Petchem margin recovery on track compared to initial phase of Covid-19

RIL's integrated petrochemicals value chain, feedstock flexibility and superior mix has enabled it to generate higher value compared to peers. In the initial phase of the Covid-19 lockdown, the profitability of the petchem segment was hit due to lower demand and product margins. After the initial phase, quick shift in business model from domestic to export market enabled RIL to operate at better utilisation. With demand revival, polyester chain margins are expected to remain firm. This will benefit integrated players. Hence, we believe petchem profitability would improve from US$182/tonne in FY21 to US$243/tonne in FY23E. We expect O2C profitability to increase from ₹ 38170 crore in FY21 to ~₹ 61400 crore in FY23E.

On the marketing front, we expect production of transportation fuel to improve with lockdown restrictions easing. Private sector's share in marketing volume is estimated at ~10% in the country while RIL is one of the largest among private players. The company is planning to add ~4000 retail outlets in the next five years that will aid volume growth.

### Stake sale in O2C to unlock further value; to enhance investment in new energy ventures

RIL is in discussions with Saudi Aramco for a minority stake sale in the O2C segment. Investment by a global player and subsequent value unlocking will enable RIL to further de-leverage its balance sheet while the new O2C subsidiary structure will retain RIL's access to its cashflows.

Exhibit 31: Pro-forma O2C standalone balance sheet as on January 1, 2021

| Assets | $bn | Liabilities | $bn |
|---|---|---|---|
| Long Term Assets | 40 | Total Equity | 12 |
| Net Working Capital | 2 | Loan from RIL | 25 |
| | | Non-Current Liabilities | 5 |
| | | | |
| **Total Assets** | **42** | **Total Liabilities** | **42** |

*Source: Company, ICICI Direct Research*

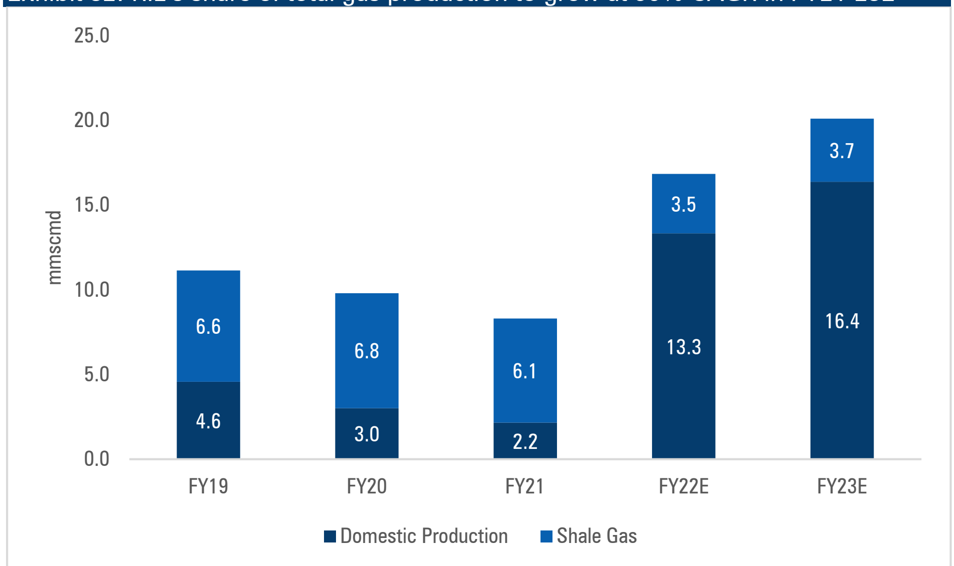
## New energy initiatives

RIL recently announced its plans to focus on new energy and new materials business. The company will build four Giga Factories to manufacture and integrate all critical components of the 'new energy' ecosystem. The company will invest ₹ 60000 crore on the new initiatives over the next three years. Additionally, RIL will invest ₹ 15000 crore in value chain, partnerships and future technologies, including upstream and downstream industries leading to total investment of ₹ 75000 crore in the new energy business.

## Gas output from KG basin, higher realisation to drive E&P profitability

Over the past few years, RIL's E&P segment has been reporting a weak performance due to lower production from domestic gas fields (mainly D1-D3 field from KG basin) and lower profitability from the US shale business. With the commencement of new fields from the KG basin, we expect a turnaround in the profitability of the E&P segment in the coming years. RIL has commenced gas production from the R-cluster and satellite cluster fields while the first gas from the MJ field is expected in Q3FY23. Combined production from the current producing fields is estimated to be 18 mmscmd. After commissioning of the MJ field in CY23, peak output expected from three fields is ~30 mmscmd. US shale gas output is expected to decline in FY22E on account of asset sale in FY21. We expect domestic gas production to grow at 176% CAGR in FY21-23E to 16.4 mmscmd. US shale production is expected to remain subdued and report de-growth in FY21-23E.

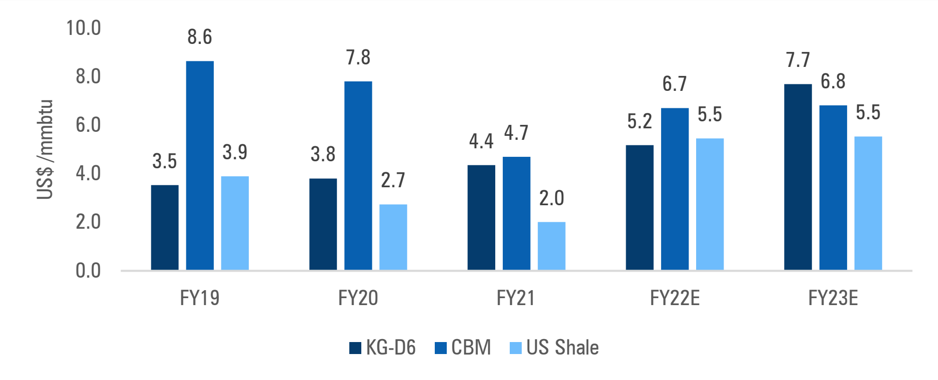
Exhibit 32: RIL's share of total gas production to grow at 56% CAGR in FY21-23E




*Source: Company, ICICI Direct Research*

RIL's E&P portfolio is expected to be a beneficiary of increasing global oil & gas prices. Production from new KG fields is linked to global market prices subject to price cap by regulator. RIL and its partner BP had auctioned 5 mmscmd gas, which is linked to dated Brent price. The floor price has been set at 8.5-8.6% of average of three month's Brent price. In the second round, 7.5 mmscmd gas was auctioned and priced against Japan-Korea spot LNG marker, which will enable the company to realise the current market price. We expect increase in gas realisation for RIL in coming quarters as both benchmark prices are currently at higher levels. We estimate realisation for KG fields to increase from US$4/bbl currently to US$7.7/bbl in FY23E. Driven by growth in production as well as realisation, we expect RIL's revenues to grow at a healthy rate in FY21-23E.

Exhibit 33: Gas realisation to grow from FY21 level

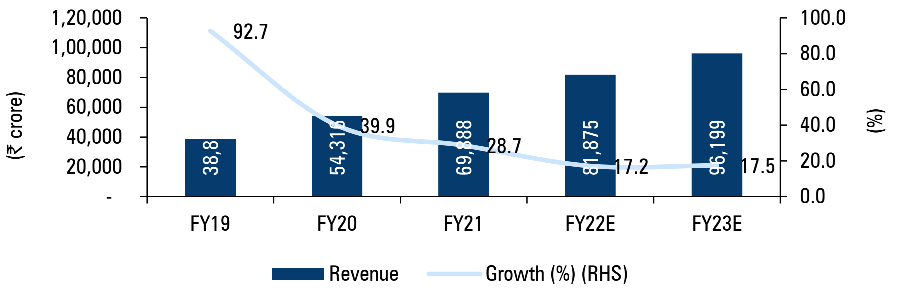



*Source: Company, ICICI Direct Research*

# Financials

## Bake in Jio revenues CAGR of 17.3% over FY21-23E

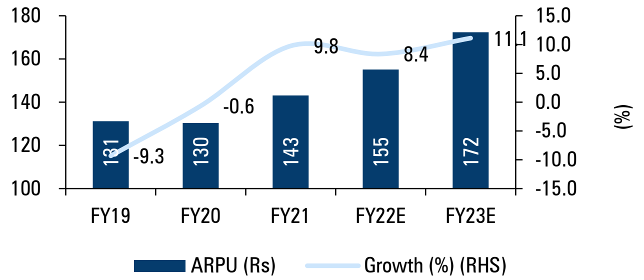
Exhibit 34: Revenue and revenue growth (%)

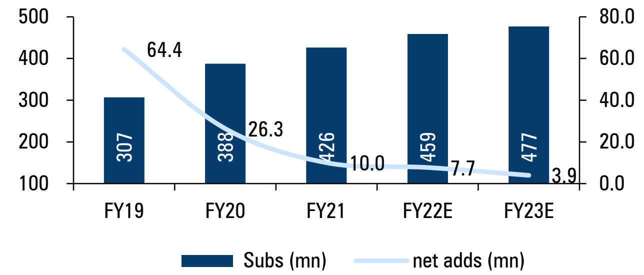



Source: ICICI Direct Research, Company

*Revenue of the company is expected to grow at 17.3% CAGR over FY21-23E to ₹ 96,199 crore. The revenue growth would be primarily driven by ARPU growth. We bake in 9.7% CAGR ARPU growth over FY21-23E as we expect ARPU to reach ₹ 172 in FY23E. ARPU growth would be helped by i) mix improvement with JioPhone next launch and ii) some traction in fixed broadband base. Overall sub base growth is expected to moderate at 5.8% CAGR over FY21-23E, with growth mainly driven by new JioPhone next subscribers*

Exhibit 35: Largely driven by ARPU growth…

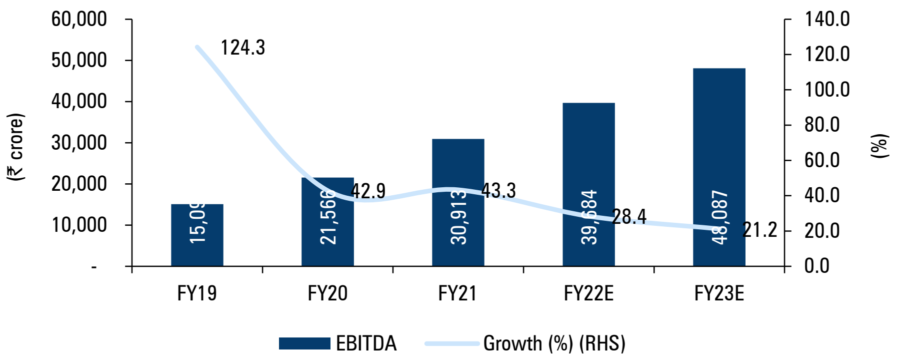



Source: Company, ICICI Direct Research

## Jio EBITDA to grow at 24.7% CAGR over FY21-23E

Exhibit 36: EBITDA and EBITDA growth (%)

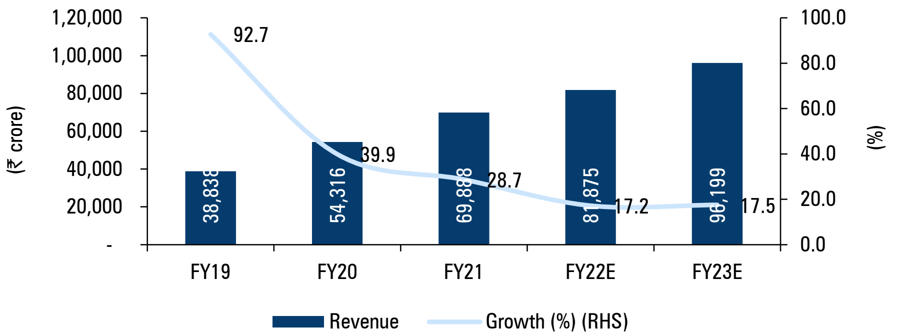



Source: ICICI Direct Research, Company

*We bake in 24.7% CAGR EBITDA growth over FY21-23E to ₹ 48,087 crore, driven by operating leverage. This is despite higher network operating expenses we are building in for FY22E/FY23E due to incremental rental charges on divestment of tower assets to Brookfield as well as incremental costs from JioFiber. We expect EBITDA margin to reach 50% in FY23E. The optical expansion in margins is higher also owing to net IUC charges becoming zero effective January 1, 2021, which helped in reduction of access charges apart from revenues reduction*

## Jio PAT to grow at 19.8% CAGR

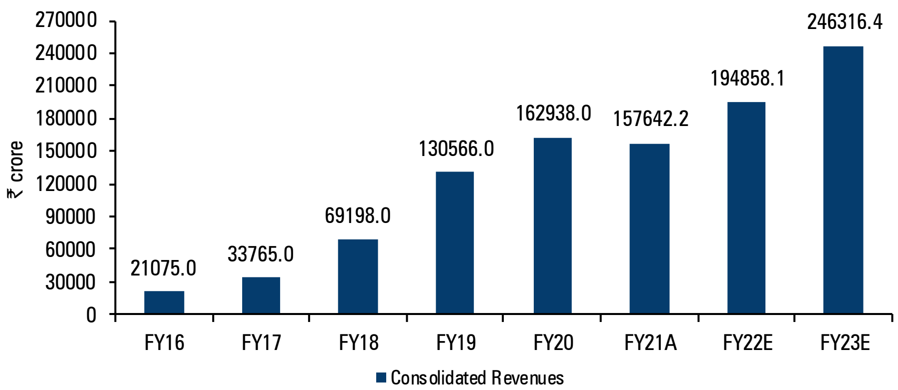
Exhibit 37: PAT and PAT growth (%)




Source: ICICI Direct Research, Company

*PAT growth is expected to be lower at 19.8% CAGR over FY21-23E to ₹ 17,231 crore on account of rise in depreciation and interest costs*

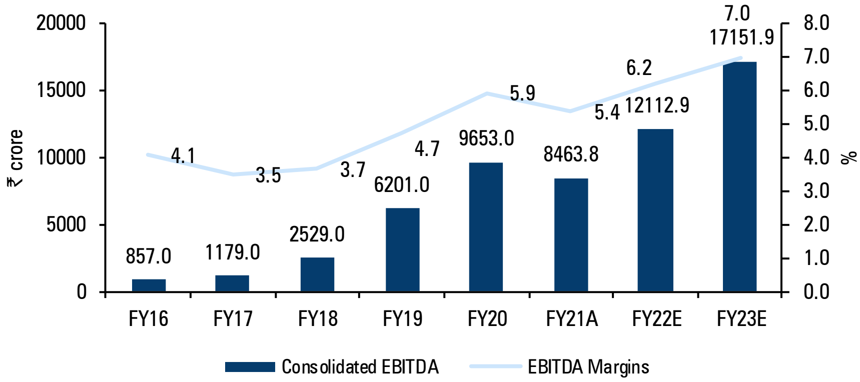
Exhibit 38: Consolidated retail revenues to grow at CAGR of 25% in FY21-23E




*Source: Company, ICICI Direct Research*

*Consolidated retail revenues are expected to grow at a CAGR of 25% over FY21-23 with strong growth across grocery, fashion & lifestyle and consumer electronics segments*

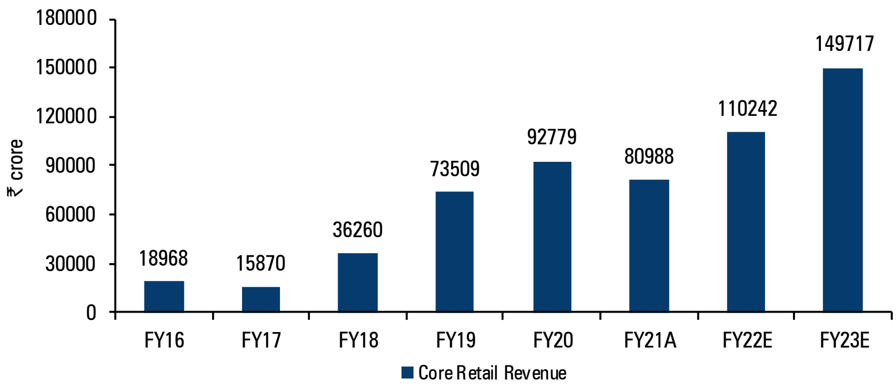
Exhibit 39: EBITDA expected to grow at 42% CAGR during FY21-23E




*Source: Company, ICICI Direct Research. EBITDA excludes other income*

*Consolidated EBITDA margin is expected to increase by 160 bps over FY21-23E to 7%, driven by improved margin profile in the grocery, fashion & lifestyle segment and consumer electronics segments*

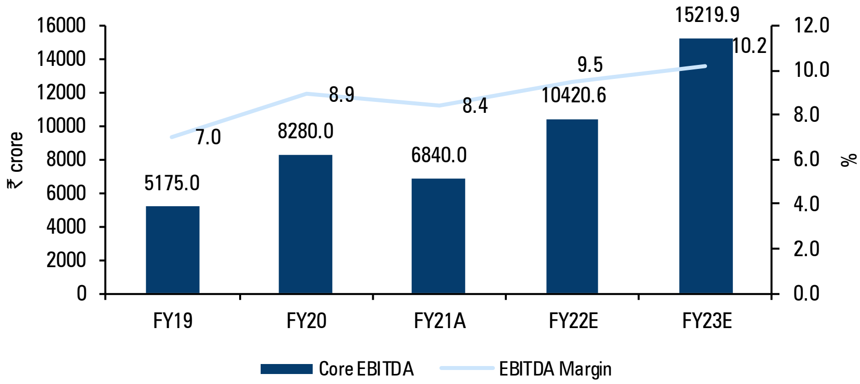
Exhibit 40: Core retail revenues to grow at CAGR of 36% in FY21-23E….




*Source: Company, ICICI Direct Research*

*Core retail revenues are expected to grow at 36% over FY21-23E driven by strong growth trajectory in grocery and fashion & lifestyle segment*

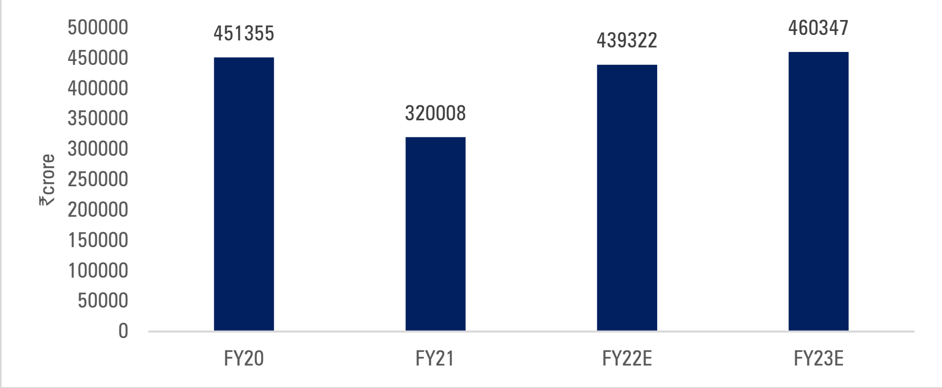
Exhibit 41: With core EBITDA expected to grow at 49% CAGR during FY21-23E




*Source: Company, ICICI Direct Research. Core EBITDA excludes other income*

*Core retail EBITDA margin is expected to increase by 180 bps over FY21-23E to 10.2%, driven by enhanced margin profile across grocery, fashion & lifestyle and consumer electronics segments*

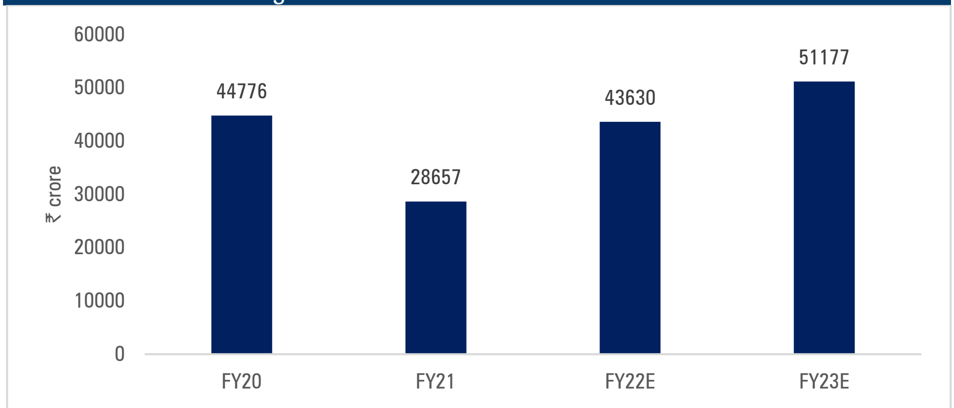
Exhibit 42: O2C revenue to grow at 19.9% CAGR in FY21-23E




Source: Company, ICICI Direct Research

*We estimate healthy improvement in O2C revenue in FY21-23E owing to better realisation amid improving macroeconomic scenario. We expect O2C revenue to grow at 19.9% CAGR in FY21-23E. Refining revenue is expected to improve at 25.5% CAGR owing to better realisation growth. Petchem segment is expected to grow at 15.7% CAGR with growth in volume as well as realisation*

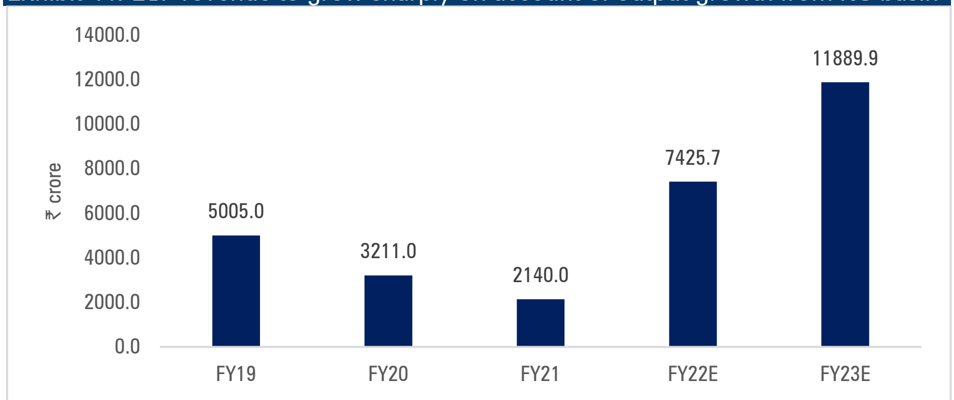
Exhibit 43: O2C EBIT to grow at 33.6% CAGR in FY21-23E




Source: Company, ICICI Direct Research

*O2C EBIT is expected to grow at 33.6% CAGR in both refining as well as petchem segments. GRMs are expected to improve from US$6/bbl in FY21E to US$7.5/bbl and US$9/bbl in FY22E and FY23E, respectively. Also, improvement in petchem margins along with higher volumes will support profitability of the O2C segment*

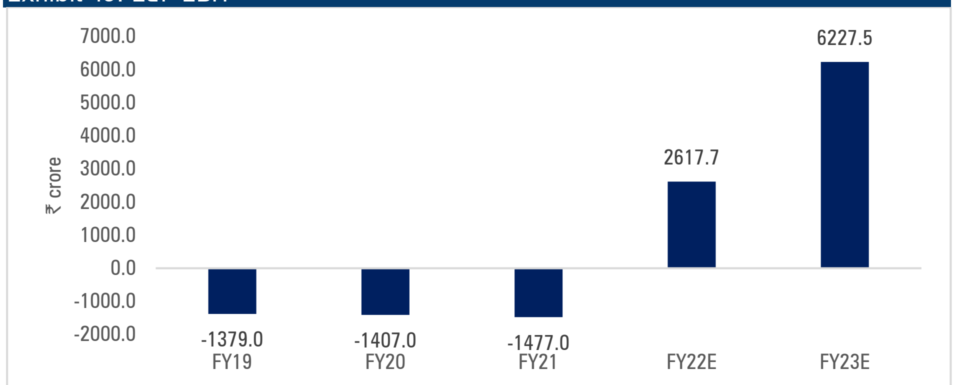
Exhibit 44: E&P revenue to grow sharply on account of output growth from KG basin




Source: Company, ICICI Direct Research

*We expect revenue to grow exponentially over the next two years as production is expected to be 7.6x in FY23 compared to FY21 level. Gas realisation is also expected to grow on the back of improvement in global benchmark prices*

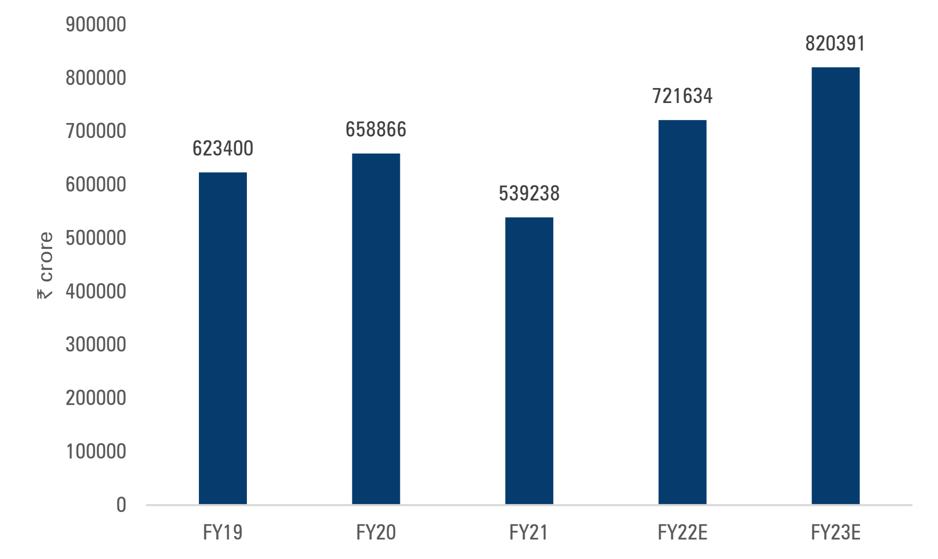
Exhibit 45: E&P EBIT




Source: Company, ICICI Direct Research

*E&P profitability is expected to grow strongly owing to commencement of production from KG basin and increase in realisation*

Exhibit 46: RIL consolidated revenue




*Source: Company, ICICI Direct Research*

*RIL's revenue is expected to grow at 23.3% CAGR in FY21-23E as all key segments are expected to report strong growth*

Exhibit 47: RIL consolidated EBIT

| | FY19 | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|
| O2C | 52041.0 | 45191.0 | 29773.0 | 44714.5 | 52396.6 |
| Oil & gas | -1379.0 | -1407.0 | -1477.0 | 2617.7 | 6227.5 |
| Retail | 5546.0 | 8292.0 | 7991.0 | 11791.8 | 16085.1 |
| Digital Services | 8784.0 | 14634.0 | 21181.0 | 24963.0 | 29187.0 |
| Financial Services | 0.0 | 811.0 | 1357.0 | 1257.0 | 1600.0 |
| Others | 1230.0 | 2671.0 | 3635.0 | 3714.0 | 3800.0 |
| **Total** | **66222.0** | **70192.0** | **62460.0** | **89058.0** | **109296.2** |

*Source: Company, ICICI Direct Research*

*O2C and retail segment's profitability declined in FY21 owing to lower demand and margins in the initial period of Covid-19. Jio's profitability increased owing to strong subscriber additions and higher ARPU. Going ahead, all segments are expected to report healthy profitability with an improving macroeconomic scenario*

Exhibit 48: Percentage share of various business segments in RIL's EBIT mix

| | FY19 | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|---|
| O2C | 79% | 64% | 48% | 50% | 48% |
| Oil & gas | -2% | -2% | -2% | 3% | 6% |
| Retail | 8% | 12% | 13% | 13% | 15% |
| Digital Services | 13% | 21% | 34% | 28% | 27% |
| Financial Services | 0% | 1% | 2% | 1% | 1% |
| Others | 2% | 4% | 6% | 4% | 3% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** |

*Source: Company, ICICI Direct Research*

*Share of consumer facing business in EBIT mix is expected to increase from 33% in FY20 to 42% in FY23E. O2C share in the same period is expected to decline from 64% to 48% while oil & gas is anticipated to contribute 6% in EBIT mix in FY23E*

## Key risks and concerns

### Possible domestic/global demand disruption due to mobility restrictions

The first and second wave of Covid-19 and subsequent restrictions by the government on transport hugely affected demand across the O2C product chain. While demand has seen a recovery post ease in restrictions, any potential surge in Covid-19 infection may affect demand. Also, any potential decline in global demand for petroleum products may impact refining margins, thereby affecting profitability in the O2C segment. For the retail segment, any re-imposition of lockdown owing to the pandemic can again lead to store closures or restricted movement of people, which can negatively impact store footfalls and lead to lower in-store sales, thereby negatively impacting the estimated revenue growth.

### Delay in tariff hike

One of the key risks for Jio's earnings growth ahead will be any delay in tariff hike. Given that the government has already laid out some relief recently, increase in tariff will be a function of agreement of all players. Furthermore, other variables such as pandemic tail and Jio's strategy to choose tariff push vs. subscriber market grab, will also hold key.

### Inability to upgrade low cost Jio phone user

While Jio does not have to carry legacy 2G customers, it does have a huge (~10 crore+) JioPhone user base, the upgradation of which will hold the key for overall ARPU mix. Therefore, launch of JioPhone Next and its response will be key to an improvement of this matrix.

### Decline in oil & gas prices

RIL's E&P business portfolio profitability is linked to global oil & gas prices. Global crude oil prices witnessed extreme volatility during FY21 owing to demand disruption. With Opec+ balancing the global crude oil market with output intervention, crude oil prices have increased and are trading at US$70-75/bbl. Any potential decline in crude prices and subsequent fall in gas prices may impact the profitability of the E&P business.

### Delay in O2C stake sale, lower-than-expected valuation

RIL is in discussions with a global player for stake sale in the O2C segment. The valuation at which the stake is sold to financial/strategic investors and the timeline for the same will be the key monitorable.

### Vodafone Idea's survival and way ahead

Vodafone Idea's survival (if it manages to raise funds and tariff) could be a key risk to the overall market construct benefit that Jio/Bharti Airtel would have otherwise witnessed in a duopoly market.

### Faster JioMart rollout to be watched

Slower-than-expected ramp-up in JioMart rollout can negatively impact the pace of new customer acquisition.

## Valuations

The valuation of the digital segment needs to be seen in the context of the multiple businesses that Jio Platform operates. While telecom/JioFiber and some minor receipts of the enterprise segment is captured in Reliance Jio numbers, which we have estimated, there is also an increment value accretion from the digital ecosystem that will be captured at the JPL level.

In order to capture the value, we have done a discounted cash flow analysis of Reliance Jio. We highlight that our valuation of Jio's telecom business implies target EV/EBITDA of ~12x FY23 EV/EBITDA. We also take into consideration the investment value in Hathway/Den and other investments in new digital tech companies along with digital asset potential. However, we highlight that there is huge value unlocking potential as and when any of the digital asset investment matures.

Our target enterprise value for the digital segment is ~₹ 6.84 lakh crore, which is ~32% higher than JPL deals' pegged valuation of ~₹ 5.16 lakh crore.

Exhibit 49: Digital segment valuation

| Valuations Details | ₹ crore |
|---|---|
| FCFF for FY 2027 | 36456 |
| WACC | 10.0% |
| Perpetual growth rate (g) | 5.0% |
| Terminal value FCFF/(WACC-g) | 765576 |
| **PV of terminal value FCFF** | **522899** |
| | |
| Enterprise value | |
| **Sum of PV of FCFF (FY22-FY26)** | **52141** |
| **PV of terminal value** | **522899** |
| **Target EV of Jio** | **575040** |
| Other investments and Digital | 108645 |
| **Total Digital Assets value** | **683685** |

*Source: ICICI Direct Research, Company*

Reliance Retail has forged an indomitable presence across retail categories ranging from grocery to fashion and lifestyle with a pan-India distribution footprint. Aggressive store network expansion with consistent same store sales growth (SSSG) and improvement in operating profitability metrics has enabled it to demonstrate revenue and EBITDA CAGR of 50% and 58%, respectively, over FY16-21. Reliance Retail appears well equipped to counter the competition posed by large e-commerce players through its ever increasing omni channel presence (through JioMart). Reliance Retail's widespread physical store network would further enhance its omni channel capabilities and position it as a frontrunner to garner consistent business growth by capturing a larger pie of the Indian retail sector opportunity (digital contributed ~10% of revenues in Q4FY21). The immense scale of operation supported by strong technology backbone would enable it to leverage benefits from large scale sourcing and capture potential demand pockets and continue on its sustained profitable growth journey over the longer term. **We value Reliance Retail at 40x FY23E EV/EBITDA ascribing valuation of ₹ 6.9 lakh crore (US$93 billion, @85.1%: US$79 billion).**

Exhibit 50: Peer valuation (Retail)

| Sector / Company | M Cap | EV/Sales (x) | | | | P/E (x) | | | | EV/EBITDA (x) | | | | RoCE (%) | | | | RoE (%) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (₹ Cr) | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E | FY20 | FY21E | FY22E | FY23E |
| Trent | 35,547 | 10.0 | 13.5 | 9.1 | 6.3 | 289.5 | - | 296.2 | 114.6 | 64.4 | 204.2 | 62.8 | 41.6 | 15.9 | 4.3 | 15.0 | 22.6 | 5.1 | -6.3 | 5.0 | 11.8 |
| ABFRL | 22,464 | 2.2 | 4.1 | 2.7 | 2.1 | - | - | - | 64.3 | 16.0 | - | 21.8 | 12.9 | 10.2 | -8.9 | 3.2 | 17.8 | -15.3 | -25.5 | -2.9 | 10.2 |
| Bata India | 23,315 | 7.3 | 13.0 | 8.0 | 6.0 | 71.3 | - | 88.9 | 45.3 | 26.9 | 137.8 | 32.6 | 21.2 | 28.2 | -5.9 | 20.4 | 32.7 | 17.2 | -5.1 | 13.5 | 23.0 |
| Titan Company | 1,87,323 | 8.9 | 8.5 | 7.1 | 5.7 | 124.8 | 192.5 | 96.5 | 69.0 | 76.0 | 106.8 | 61.5 | 45.3 | 28.7 | 17.6 | 28.5 | 32.0 | 22.5 | 13.0 | 21.4 | 24.1 |
| Relaxo Footwear | 29,772 | 12.4 | 12.5 | 10.5 | 8.6 | 131.6 | 102.2 | 92.7 | 71.5 | 72.8 | 59.5 | 55.1 | 44.2 | 23.9 | 26.0 | 25.1 | 28.0 | 17.8 | 18.5 | 18.0 | 20.3 |
| Avenue Supermarts | 2,65,586 | 10.5 | 10.9 | 8.3 | 5.9 | 204.2 | 241.6 | 166.8 | 104.5 | 123.3 | 150.9 | 103.4 | 66.7 | 16.4 | 12.5 | 15.8 | 21.2 | 11.7 | 9.0 | 11.6 | 15.6 |
| V-Mart | 6,890 | 3.8 | 6.0 | 3.7 | 2.4 | 128.9 | NA | 175.9 | 59.5 | 29.7 | 49.3 | 30.4 | 18.7 | 27.0 | 6.0 | 13.6 | 23.6 | 10.7 | -0.8 | 4.5 | 11.9 |

*Source: Company, ICICI Direct Research*

RIL reported healthy GRMs prior to the Covid-19 pandemic. With a gradual opening up of economies and increase in demand, we expect product cracks to improve in coming years. The petchem segment is also expected to add value as production is expected to improve from FY21 level while margins across key products are estimated to remain healthy. We value the oil to chemicals (O2C) segment at 8x FY23E EV/EBITDA leading to ₹ 726/share equity value. With a ramp-up in production from the KG basin, RIL's E&P segment is expected to turn around and contribute ~25% of India's total gas production. We value the oil & gas segment at 7.5x FY23E EV/EBITDA to arrive at ₹ 99/share value. Thus, the energy segment is valued at ₹ 825/share.

**On the basis of SoTP valuation, we arrive at a target price of ₹ 2480/share. We initiate coverage on Reliance Industries with a HOLD recommendation.**

Exhibit 51: RIL valuation

| Busienss segments | Valuation Methodology | Value (₹ crore) | ₹/share |
|---|---|---|---|
| **Energy** | | | |
| Oil to Chemicals | 8x FY23E EBITDA | 491173 | 726 |
| Oil & Gas | 7.5x FY23E EBITDA | 66956 | 99 |
| **Value of Energy business** | | **558129** | **825** |
| **Consumer Business** | | | |
| Retail (RIL share) | 40x FY23E EBITDA | 583851 | 863 |
| Digital services (RIL share) | DCF | 458069 | 677 |
| **Value of Consumer business** | | **1041920** | **1541** |
| Others | | 81200 | 120 |
| Net debt | | 4563 | 7 |
| **Equity value** | | **1676686** | **2480** |

*Source: Company, ICICI Direct Research*

## Jio Financial Summary

Exhibit 52: Profit and loss statement ₹ crore

| (₹ Crore) | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **Net Sales** | **54,316** | **69,888** | **81,875** | **96,199** |
| Network operating expenses | 16,930 | 22,058 | 26,794 | 30,145 |
| Access charges | 5,796 | 4,631 | 757 | 801 |
| LF/SUC | 5,720 | 7,755 | 9,734 | 11,448 |
| Employee cost | 1,463 | 1,337 | 1,390 | 1,460 |
| Selling & Distribution expenses | 1,277 | 1,172 | 1,392 | 1,924 |
| Other expenses | 1,564 | 2,022 | 2,123 | 2,335 |
| **Total Operating Expenditure** | **32,750** | **38,975** | **42,191** | **48,113** |
| **EBITDA** | **21,566** | **30,913** | **39,684** | **48,087** |
| Other Income | 87 | 548 | 80 | 84 |
| Interest | 6,617 | 3,840 | 5,065 | 4,983 |
| Depreciation | 7,396 | 11,534 | 15,808 | 20,117 |
| **PBT** | **7,640** | **16,087** | **18,891** | **23,071** |
| Total Tax | 1,933 | 4,072 | 4,782 | 5,840 |
| **Reported PAT** | **5,561** | **12,015** | **14,109** | **17,231** |
| **Adjusted PAT** | **5,707** | **12,015** | **14,109** | **17,231** |
| **EPS (Diluted)** | **1.2** | **2.7** | **3.1** | **3.8** |

*Source: ICICI Direct Research*

Exhibit 53: Cash Flow Statement ₹ crore

| ₹ crore | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **PAT** | **5,561** | **12,015** | **14,109** | **17,231** |
| Depreciation | 7,396 | 11,534 | 15,808 | 20,117 |
| Interest Paid | 6,617 | 3,840 | 5,065 | 4,983 |
| Others | (87) | (548) | (80) | (84) |
| **Cash Flow before WC changes** | **19,487** | **26,841** | **34,902** | **42,247** |
| Net Increase in Current Assets | (6,643) | (1,851) | (2,037) | (4,105) |
| Net Increase in Current Liabilities | 6,277 | 5,343 | 1,681 | 1,424 |
| **Net CF from Operating Activities** | **19,121** | **30,333** | **34,547** | **39,566** |
| (Purchase)/Sale of Fixed Assets | (23,473) | (14,984) | (79,474) | (19,048) |
| Others | (16,067) | (9,426) | 13,929 | (3,251) |
| **Net CF from Investing Activities** | **(39,540)** | **(24,410)** | **(65,546)** | **(22,299)** |
| Proceeds from share capital/Pref | 1,09,125 | - | - | - |
| Change in Borrowings | (54,340) | (12,105) | 37,562 | (1,100) |
| Others | (27,315) | (709) | (4,008) | (3,712) |
| **Net CF from Financing Activities** | **27,470** | **(12,814)** | **33,554** | **(4,812)** |
| **Net Cash flow** | **7,051** | **(6,891)** | **2,555** | **12,455** |
| Opening Cash/ Cash Equivalent | 429 | 7,480 | 589 | 3,144 |
| **Closing Cash/ Cash Equivalent** | **7,480** | **589** | **3,144** | **15,599** |

*Source: ICICI Direct Research*

Exhibit 54: Balance Sheet ₹ crore

| (₹ Crore) | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Equity Share Capital | 45,000 | 45,000 | 45,000 | 45,000 |
| Pref share capital | 1,09,125 | 1,09,125 | 1,09,125 | 1,09,125 |
| Reserves & Surplus | 16,831 | 28,848 | 42,957 | 60,189 |
| **Total Shareholders funds** | **1,70,956** | **1,82,973** | **1,97,082** | **2,14,314** |
| **Total Debt** | **42,081** | **29,976** | **67,538** | **66,438** |
| Deferred Tax Liability | - | 2,526 | 2,526 | 2,526 |
| Other Non Current Liabilities | 18,447 | 23,231 | 25,248 | 27,413 |
| **Capital Employed** | **2,31,484** | **2,38,706** | **2,92,394** | **3,10,691** |
| | | | | |
| **Assets** | | | | |
| Gross Block | 1,77,870 | 1,97,131 | 2,72,125 | 2,91,365 |
| Net Block | 1,63,427 | 1,71,154 | 2,30,340 | 2,29,464 |
| Capital WIP | 21,258 | 16,981 | 21,461 | 21,269 |
| Investments | 2,492 | 1,538 | 1,538 | 1,538 |
| | | | | |
| Sundry Debtors | 1,609 | 1,410 | 1,652 | 1,941 |
| Loans and Advances | 1,067 | 614 | 614 | 614 |
| Other Current Assets | 16,906 | 19,402 | 21,198 | 25,014 |
| Cash | 7,480 | 589 | 3,144 | 15,599 |
| Total Current Assets | 27,062 | 22,015 | 26,607 | 43,167 |
| Creditors | 4,700 | 2,239 | 2,623 | 3,082 |
| Provision | 59 | 72 | 409 | 481 |
| Other Current Liabilities | 5,462 | 9,072 | 9,072 | 9,072 |
| Total Current Liabilities | 10,221 | 11,383 | 12,104 | 12,635 |
| Net Current Assets | 16,841 | 10,632 | 14,503 | 30,532 |
| Other non current assets | 27,466 | 38,401 | 24,552 | 27,888 |
| **Assets side total** | **2,31,484** | **2,38,706** | **2,92,394** | **3,10,691** |

*Source: ICICI Direct Research*

Exhibit 55: Ratio Analysis ₹ crore

| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **Per Share Data** | | | | |
| EPS (Fully Diluted) | 1.2 | 2.7 | 3.1 | 3.8 |
| Cash EPS | 2.9 | 5.2 | 6.6 | 8.3 |
| BV | 38.0 | 40.7 | 43.8 | 47.6 |
| - | | | | |
| **Operating Ratios** | | | | |
| EBITDA / Net Sales | 39.7 | 44.2 | 48.5 | 50.0 |
| PAT / Net Sales | 10.5 | 17.2 | 17.2 | 17.9 |
| Inventory Days | - | - | - | - |
| Debtor Days | 11 | 7 | 7 | 7 |
| Creditor Days | 32 | 12 | 12 | 12 |
| | | | | |
| **Return Ratios** | | | | |
| RoE | 3.3 | 6.6 | 7.2 | 8.0 |
| RoCE | 6.2 | 8.4 | 8.3 | 9.1 |
| RoIC | 7.0 | 8.9 | 9.0 | 10.3 |
| | | | | |
| **Turnover Ratios** | | | | |
| Asset turnover | 0.2 | 0.3 | 0.3 | 0.3 |
| Gross Block Turnover | 0.3 | 0.4 | 0.3 | 0.3 |
| **Solvency Ratios** | | | | |
| Net Debt / Equity | 0.2 | 0.2 | 0.3 | 0.2 |
| Current Ratio | 4.6 | 4.3 | 3.3 | 3.7 |
| Net Debt / EBITDA | 1.5 | 0.9 | 1.6 | 1.0 |
| Quick Ratio | 4.6 | 4.3 | 3.3 | 3.7 |

*Source: ICICI Direct Research*

# Consolidated Financial Summary

Exhibit 56: Profit and loss statement ₹ crore

| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **Revenue** | **658866.0** | **539238.0** | **721634.4** | **820391.0** |
| Growth (%) | 5.7 | -18.2 | 33.8 | 13.7 |
| (Inc.)/Dec. in stock trade | 260621.0 | 199915.0 | 274069.1 | 288506.0 |
| Raw material Costs | 144619.0 | 92786.0 | 127443.9 | 162618.7 |
| Employee Costs | 14075.0 | 14817.0 | 16837.9 | 18185.0 |
| Excise Duty | 62335.0 | 72314.0 | 97687.7 | 114478.1 |
| Other Expenditure | 88507.0 | 78669.0 | 91462.9 | 96036.0 |
| Op. Expenditure | 5,70,157.0 | 4,58,501.0 | 6,07,501.5 | 6,79,823.8 |
| **EBITDA** | **88709.0** | **80737.0** | **114133.0** | **140567.2** |
| Growth (%) | 5.7 | -9.0 | 41.4 | 23.2 |
| Depreciation | 22203.0 | 26572.0 | 32094.0 | 37671.0 |
| EBIT | 66506.0 | 54165.0 | 82039.0 | 102896.2 |
| Interest | 22027.0 | 21189.0 | 13147.0 | 13000.0 |
| Other Income | 13571.0 | 16843.0 | 16432.0 | 17400.0 |
| PBT | 53606.0 | 55461.0 | 85324.0 | 107296.2 |
| Growth (%) | -2.9 | 3.5 | 53.8 | 25.8 |
| Tax | 13726.0 | 1722.0 | 20613.6 | 27038.7 |
| Minority Interest | 526.0 | 4611.0 | 7412.9 | 9130.7 |
| **Reported PAT** | **39354.0** | **49128.0** | **57297.5** | **71126.9** |
| Growth (%) | -1.2 | 24.8 | 16.6 | 24.1 |
| **EPS** | **62.1** | **76.2** | **84.7** | **105.2** |

*Source: ICICI Direct Research*

Exhibit 57: Cash Flow Statement ₹ crore

| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| Profit after Tax | 39,880.0 | 53,739.0 | 64,710.4 | 80,257.6 |
| Add: Depreciation | 22,203.0 | 26,572.0 | 32,094.0 | 37,671.0 |
| Add: Others | 4,200.0 | -17,122.0 | 5,275.0 | 5,275.0 |
| Cash Profit | 66,283.0 | 63,189.0 | 1,02,079.4 | 1,23,203.6 |
| Increase/(Decrease) in CL | 35,864.0 | -83,978.0 | 88,477.7 | 39,569.9 |
| (Increase)/Decrease in CA | -34,895.0 | -55,312.0 | 16,015.3 | 14,307.2 |
| **CF from Operating Activities** | **67,252.0** | **-76,101.0** | **2,06,572.4** | **1,77,080.7** |
| Purchase of Fixed Assets | 86,130.0 | 52,019.0 | 89,882.0 | 34,240.0 |
| (Inc)/Dec in Investments | -41,279.0 | -88,061.0 | -16,854.0 | 0.0 |
| Others | 3901 | 87079 | 8000 | 8000 |
| **CF from Investing Activities** | **-1,23,508.0** | **-53,001.0** | **-98,736.0** | **-26,240.0** |
| Inc/(Dec) in Loan Funds | 57,489.0 | -81,689.0 | -35,000.0 | -35,000.0 |
| Inc/(Dec) in Sh. Cap. & Res. | 26,759.0 | 2,01,189.0 | 32,465.1 | -9,130.7 |
| Dividend Paid | 4584 | 3921 | 5071.5 | 6085.8 |
| **CF from financing activities** | **79,664.0** | **1,15,579.0** | **-7,606.4** | **-50,216.5** |
| Change in cash Eq. | 23,408.0 | -13,523.0 | 1,00,230.0 | 1,00,624.2 |
| Op. Cash and cash Eq. | 7,512.0 | 30,920.0 | 17,397.0 | 1,17,627.0 |
| **Cl. Cash and cash Eq.** | **30,920.0** | **17,397.0** | **1,17,627.0** | **2,18,251.1** |

*Source: ICICI Direct Research*

Exhibit 58: Balance Sheet ₹ crore

| (Year-end March) | FY20 | FY21 | FY22E | FY23E |
|---|---|---|---|---|
| **Source of Funds** | | | | |
| Equity Capital | 6,339.0 | 6,445.0 | 6,762.0 | 6,762.0 |
| Preference Capital | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserves & Surplus | 4,46,991.0 | 6,93,627.0 | 7,85,414.0 | 8,50,455.1 |
| Shareholder's Fund | 4,53,330.0 | 7,00,072.0 | 7,92,176.0 | 8,57,217.1 |
| Loan Funds | 3,74,402.0 | 2,92,714.0 | 2,57,714.0 | 2,22,714.0 |
| Deferred Tax Liability | 54,123.0 | 37,001.0 | 42,276.0 | 47,551.0 |
| Minority Interest and others | 8,017.0 | 99,260.0 | 1,07,260.0 | 1,15,260.0 |
| **Source of Funds** | **8,89,872.0** | **11,29,047.0** | **11,99,426.0** | **12,42,742.1** |
| | | | | |
| **Application of Funds** | | | | |
| Gross Block | 7,43,788.0 | 7,75,812.0 | 8,79,812.0 | 9,28,052.0 |
| Less: Acc. Depreciation | 2,11,130.0 | 2,34,554.0 | 2,66,648.0 | 3,04,319.0 |
| Net Block | 5,32,658.0 | 5,41,258.0 | 6,13,164.0 | 6,23,733.0 |
| Capital WIP | 1,09,106.0 | 1,25,953.0 | 1,11,835.0 | 97,835.0 |
| Total Fixed Assets | 6,41,764.0 | 6,67,211.0 | 7,24,999.0 | 7,21,568.0 |
| Investments | 2,76,767.0 | 3,64,828.0 | 3,81,682.0 | 3,81,682.0 |
| Inventories | 73,903.0 | 81,672.0 | 88,968.6 | 1,01,144.1 |
| Debtor | 19,656.0 | 19,014.0 | 25,702.0 | 29,219.4 |
| Cash | 30,920.0 | 17,297.0 | 1,17,527.0 | 2,18,151.1 |
| Loan & Advance, Other CA | 1,22,905.0 | 1,71,090.0 | 1,41,090.0 | 1,11,090.0 |
| Total Current assets | 2,47,384.0 | 2,89,073.0 | 3,73,287.7 | 4,59,604.6 |
| Current Liabilities | 2,72,363.0 | 1,86,936.0 | 2,72,837.1 | 3,10,175.2 |
| Provisions | 3,680.0 | 5,129.0 | 7,705.5 | 9,937.3 |
| Total CL and Provisions | 2,76,043.0 | 1,92,065.0 | 2,80,542.7 | 3,20,112.6 |
| Net Working Capital | -28,659.0 | 97,008.0 | 92,745.0 | 1,39,492.1 |
| Miscellaneous expense | 0.0 | 0.0 | 0.0 | 0.0 |
| **Application of Funds** | **8,89,872.0** | **11,29,047.0** | **11,99,426.0** | **12,42,742.1** |

*Source: ICICI Direct Research*

Exhibit 59: Ratio Analysis ₹ crore

| (Year-end March) | FY20 | FY21E | FY22E | FY23E |
|---|---|---|---|---|
| **Per share data (₹)** | | | | |
| Book Value | 708.6 | 1,086.4 | 1,171.7 | 1,267.8 |
| Cash per share | 48.8 | 27.0 | 174.0 | 322.8 |
| EPS | 62.1 | 76.2 | 84.7 | 105.2 |
| Cash EPS | 97.1 | 117.5 | 132.2 | 160.9 |
| DPS | 6.5 | 7.0 | 7.5 | 9.0 |
| **Profitability & Operating Ratios** | | | | |
| EBITDA Margin (%) | 13.5 | 15.0 | 15.8 | 17.1 |
| PAT Margin (%) | 6.1 | 10.0 | 9.0 | 9.8 |
| Fixed Asset Turnover (x) | 1.0 | 0.8 | 1.0 | 1.1 |
| Inventory Turnover (Days) | 40.9 | 55.3 | 45.0 | 45.0 |
| Debtor (Days) | 10.9 | 12.9 | 13.0 | 13.0 |
| Current Liabilities (Days) | 150.9 | 126.5 | 138.0 | 138.0 |
| **Return Ratios (%)** | | | | |
| RoE | 8.9 | 7.7 | 8.2 | 9.4 |
| RoCE | 8.1 | 5.5 | 7.8 | 9.5 |
| RoIC | 8.4 | 5.6 | 8.8 | 11.9 |
| **Valuation Ratios (x)** | | | | |
| PE | 38.6 | 31.4 | 28.3 | 22.8 |
| Price to Book Value | 3.4 | 2.2 | 2.0 | 1.9 |
| EV/EBITDA | 21.0 | 22.5 | 15.4 | 11.5 |
| EV/Sales | 2.8 | 3.4 | 2.4 | 2.0 |
| **Leverage & Solvency Ratios** | | | | |
| Debt to equity (x) | 0.8 | 0.4 | 0.3 | 0.3 |
| Interest Coverage (x) | 3.0 | 2.6 | 6.2 | 7.9 |
| Debt to EBITDA (x) | 4.2 | 3.6 | 2.3 | 1.6 |
| Current Ratio | 0.9 | 1.5 | 1.3 | 1.4 |
| Quick ratio | 0.6 | 1.1 | 1.0 | 1.1 |

*Source: ICICI Direct Research*

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