JM JainMatrix Investments

A quality report by JainMatrix Investments

Reliance Industries – A Firm to Rely On	• **CMP: ₹1,532** • **BUY Target: ₹2,200 by May 2022**
• **Date: 14th Jan 2020** • **Industry: Conglomerate, Large Cap of ₹ 9,85,000 cr. mkt cap** • **Current Valuation: P/E: 23 times and P/B: 2.4 times**	Reliance Industries Limited

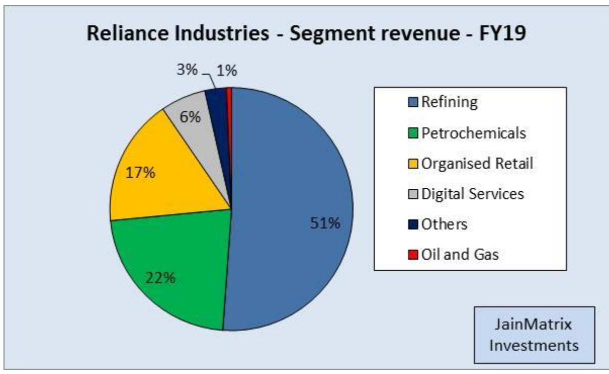
- **Overview:** Reliance Industries is the largest private sector firm and #1 by market cap in India. RIL has over decades proven its ability to build businesses of global scale and execute complex, time critical, and capital-intensive projects. ~80% of RIL's operating profits are being generated from the refining and petchem verticals. Going ahead newer businesses like Retail and Telecom are expected to grow profitably. RIL earnings has green shoots from (a) Improving ARPU from Jio wireless business (b) Launch of Jio Fiber Broadband services (c) Traction in enterprise solutions service offering (d) Lower interest costs as RIL aims to become debt free (e) improving margins and stable growth in Retail and eCommerce.
- **Key Risks:** (a) Adverse crude prices/ petroleum margins (b) Inability to reduce debt at the committed pace. (c) Lower plastic consumption affecting the petchem vertical. (d) Muted growth in Indian economy. (e) regulatory changes in telecom
- **Advice:** Investors can **BUY** this share with a May 2022 target price of ₹2,200/share. This will allow their investment to appreciate 42% absolute or 17% annualized.

Here is our report on Reliance Industries Ltd. (RIL)

RIL – Business Segments and Profile

- RIL is a Fortune 500 firm, the largest private sector firm, #1 by mkt cap in India. It has evolved over 46 years from a textile, polyester and petchem firm to an integrated player across energy, materials, retail and digital services.
- RIL's revenue in FY19 was ₹5,67,135 cr. and profits ₹39,588 cr. It has 1,94,056 employees as of FY19.
- RIL operates in business segments like refining which includes production and sales of petroleum products. The Petchem segment includes mfg. and sales of petrochemicals. The Oil & Gas segment includes exploration, development and production of crude oil and natgas. Retail is organised retail (Reliance Retail) across 20+ verticals. Digital Services segment includes telecom operator (Reliance Jio) and eCommerce (ajio.com) in India and telecom infra. The other business segments are (a) Media (b) SEZ development & (c) Textile. **See Fig 1(a).**
- RIL is one of the largest exploration and production (E&P) players in India. The upstream oil business comprises a chain including exploration, appraisal, development and production of hydrocarbons. Reliance entered E&P with a 30% partnership with Shell and ONGC in the Panna Mukta and Tapti blocks. Their domestic portfolio comprises of 5 oil and gas blocks and two Coal Bed Methane (CBM) blocks. Oil and gas is being produced from their PMT, KG D6 & CBM blocks in India and shale gas JVs in the US.
- Petroleum refining and marketing (R&M) is the second link the core energy and materials value chain. The Jamnagar (Gujarat) plant is the world's largest refining hub. This refinery helped India become a net exporter of petroleum products, and ensuring India's energy security. It has a crude processing capacity of 1.24 m. barrels per Stream Day (BPD). It housing some of the world's largest refinery sub units. It can produce gasoline and diesel of any grade. Fuels are exported world-wide. RIL also has another refinery – the 6th largest – in the SEZ at Jamnagar with a capacity to process 0.58m BPD of crude.

- Within petchem, the products have a range of applications in apparel, packaging, agriculture, automotive, housing, and healthcare. RIL offers comprehensive solutions such as project identification, new product design, product and market development, raw material selection and testing. Relwood and R|Elan are it key product / brand offerings. The fabrics cater to consumers across all segments.
- The textiles business from its plant at Naroda, makes and markets its brand 'Vimal'. The textile plant consists of mfg., weaving and finishing of synthetic and worsted yarns. Product offerings from these segments are fabrics, apparel and auto furnishing.



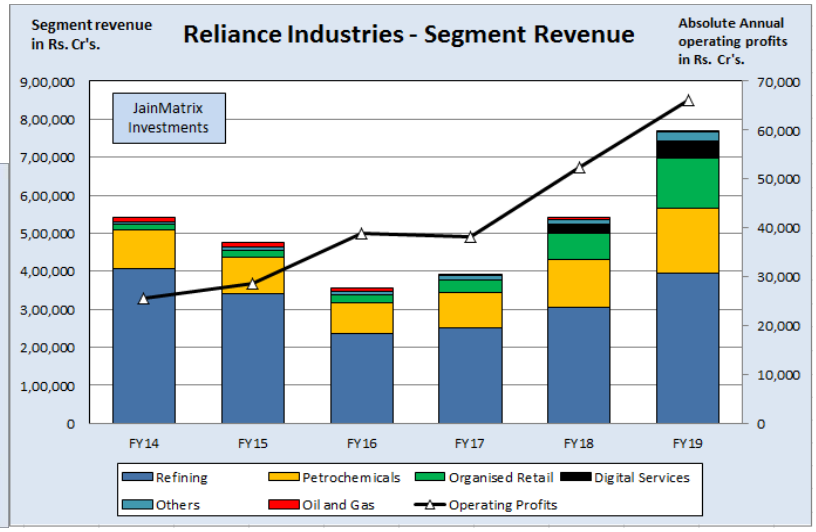


Fig 1(a) – RIL FY19 Segment revenue/Fig 1(b) – RIL Segment revenue and operating profits

- Reliance Retail (RR) is the consumer facing business of RIL into organized retailing. RR reported a turnover of ₹1,30,566 cr. for FY19. As on Jun 2019, it operates 10,644 stores across 6,700+ cities with a retail area of over 23 m.sq.ft. RR was started in 2006 and is now the largest retailer in the country. It serves the food and grocery category with Reliance Fresh and Reliance Smart stores. In consumer electronics it operates Reliance Digital, Reliance Digital Express Mini stores and Jio stores, and in fashion & lifestyle category it operates Reliance Trends, Trends Women, Project Eve, Reliance Footprint, Reliance Jewels and AJIO.com in addition to a large number of partner brand stores.

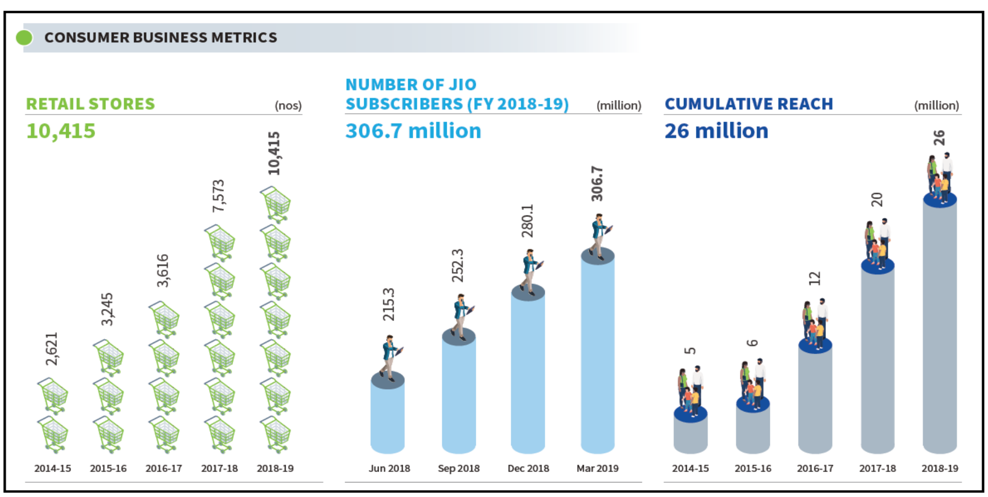


Fig 2 – RIL Consumer Business Metrics

- RR has adopted a multi-prong strategy and operates neighbourhood stores, supermarkets, hypermarkets, wholesale cash & carry stores, specialty and online stores. It has partnerships with international brands such as

Armani Exchange, Burberry, Canali, Pottery Barn, Diesel, Superdry, Hamleys, Ermenegildo Zegna, Marks and Spencer, Paul & Shark, Thomas Pink, Brooks Brothers, Steve Madden and Grand Vision. Reliance Retail Ventures Ltd, a subsidiary of RIL is the holding company of Reliance Retail which operates the retail business.

- Reliance Jio provides end-to-end digital solutions for businesses, institutions and households. Jio offers voice and broadband network. Jio has a three-pronged focus on broadband networks, affordable smartphones and the availability of rich content and applications. It offers combination of telecom, high speed data, digital commerce, media and payment services.
- Key Executives are: Mukesh Ambani (CMD), Arundhati Bhattacharya (Ind. Director), Nikhil Meswani (ED), Hital Meswani (ED), PMS Prasad (ED), Pawan Kapil (ED) and Alok Agarwal (CFO).
- Shareholding pattern % is: Promoters 47.29, DII 11.71, QFI 24.33, Individuals 8.97 and Others 7.70.

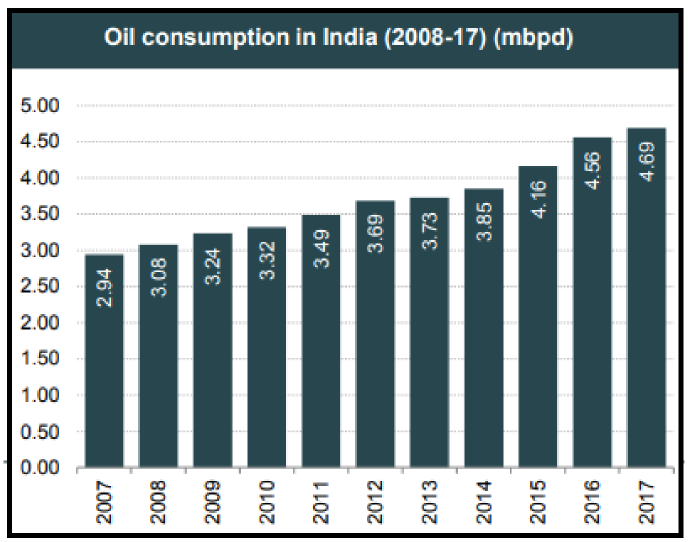
Business Notes, Strategies and Events

- In Q2 FY20 YoY RIL reported revenue grew by 4.8% to ₹1,63,854 cr. and an 18.3% growth in PAT YoY at ₹11,262 cr. RIL results were good on account of benefits from their integrated Oil to Chemicals (O2C) value chain business and the scale-up of consumer businesses. During Q2 FY20, RIL's O2C businesses gained from favourable fuel margins environment, feedstock sourcing flexibility and higher petrochemical volumes.
- In Aug 2019, Jio and Microsoft signed an agreement aimed at accelerating the digital transformation of the Indian economy and society. This 10-year commitment is aimed at offering a detailed set of solutions comprising connectivity, computing, storage and apps essential for businesses and will span across the broad RIL businesses.
- BP and RIL in Aug 2019 announced a new JV to include a retail service station network and aviation fuels business in India. This JV will also include RIL's aviation fuels business, which operates at over 30 airports across India.
- Saudi Aramco in Aug 2019 agreed to invest in the Oil to Chemicals (O2C) division comprising the Refining, Petrochemicals and fuels marketing businesses of RIL. SA would purchase 20% stake valued at an EV of US$75 bn. for the O2C division. SA and RIL have a long-standing crude oil supply relationship of over 25 years. SA is the world's largest and lowest cost-per-barrel producer and has supplied 2 bn. barrels of crude to RIL Jamnagar.
- RIL through subsidiary Reliance Brands bought 100% in Hamleys Global Holdings (Owner of Hamleys) in July 2019, for GBP 68 m (₹620 cr.). Hamleys is the oldest and largest toy shop in existence (250 years). Globally it has 167 stores in 18 countries. In India RIL had the master franchise with 88 stores across 29 cities.
- In Apr 2019 RIL through Jio acquired 87% in Haptic Infotech Pvt Ltd for ₹700 cr. It is one of the world's largest conversational AI platforms, and has processed more than 2 bn. interactions till date, with a client list that includes Samsung, Coca-Cola, Future Retail, KFC, Tatas, Oyo Rooms, Mahindra, etc. Haptik focuses on key customer engagement use cases such as customer support, concierge, lead generation and live chat. Jio will leverage Haptik across various devices and touch points and address the opportunity of 100 crore users in India.
- In Mar 2019 there were allegations against RIL for sidestepping US sanctions for supplying products to Venezuela. RIL denied the allegations by clarifying that since the imposition of US sanctions, it was in continuous communication with the US Department of State regarding its activities in Venezuela. Further the company has been transparent with US authorities and also had provided updates to the US Department of State.
- Reliance Industrial Investments (a subsidiary of RIL) in Oct 2018 acquired 12.7% stake in SkyTran, a US based VC funded tech firm developing technology in the field of Personal Rapid Transit Systems. RIL has an option to further invest upto USD 25 m in convertible notes. SkyTran has partnered with NASA and Israel Aerospace Industries (IAI), and developed breakthrough magnetic levitation tech for personal transportation systems to solve the problem of traffic congestion. SkyTran has 8 approved patents and 40+ patents pending approval, globally, including in India. The technology has been developed by SkyTran to create Smart Mobility Solutions. The proposed SkyTran network would consist of computer-controlled passenger pods running on its new, patented Passive Magnetic Levitation technology and would use cutting edge IT, Telecom, IoT and Advanced Materials tech to transport passengers in a fast, safe, green, and economical manner.

- RIL in Oct 2018 acquired 66% stake in Den Networks for ₹2,290 cr. It also acquired 51.3% stake in Hathway Cable and Datacom for ₹2,940 cr. These strategic investments were made to expand the digital landscape for Jio.
- RIL in June 2018 enhanced Jio's 5G and Internet of Things (IoT) capabilities by acquiring US telco solutions company Radisys. Radisys is a global leader of open telecom solutions. RIL acquired the company at $1.72/share.
- RIL has various earnings growth levers for the next few years. It has announced (a) new commerce initiative of empowering Kiranas in unorganised retail market by offering MPoS (mobile point-of-sale) (b) entry into SME enterprise space with Microsoft, (c) Jio's fiber broadband business and (d) digital initiatives like advertising.

Industry Outlook – Refining and Petrochemicals

- India is the third largest consumer of oil in the world in 2017. As of Sep 2018, the oil refining capacity of India stood at 247.6 MTPA, making it the second largest refiner in Asia. Private companies own 36% of this capacity. Capacity is expected to increase to 667 MTPA by 2040. India's consumption of petroleum products grew 5.31% to 205 MMT in FY18 from 195 MMT in FY17.
- India's energy demand is expected to double to 1,516 Mtoe (m. tonnes of equivalent) by 2035 from 753.7 Mtoe in 2017. India's share in global primary energy consumption is projected to increase by 2-folds by 2035.
- India is one of the largest exporters of refinery products. The country had the fourth largest oil refining capacity and fourth largest refinery throughput globally in 2017. Exports of petroleum products from India increased from 51.15 MMT in FY10 to 66.76 MMT in FY18P. The revenue model of refineries is typically based on optimum capacity utilization and maximum production of fuels such as petrol and diesel.
- Profitability is determined mainly by gross refining margins (GRMs), which is a function of the price of crude oil and petroleum products, and the demand-supply scenario. Petroleum product 'spreads' were healthy in the past because of strong demand from the transportation sector in both developed and developing economies. However, recent volatility in crude oil prices has meant spreads haven't increased apace with crude oil prices, leading to shrinking GRMs. Refiners are therefore trying to reinvent themselves through diversification and revenue-stream expansion by producing more value-added products such as basic petrochemicals.



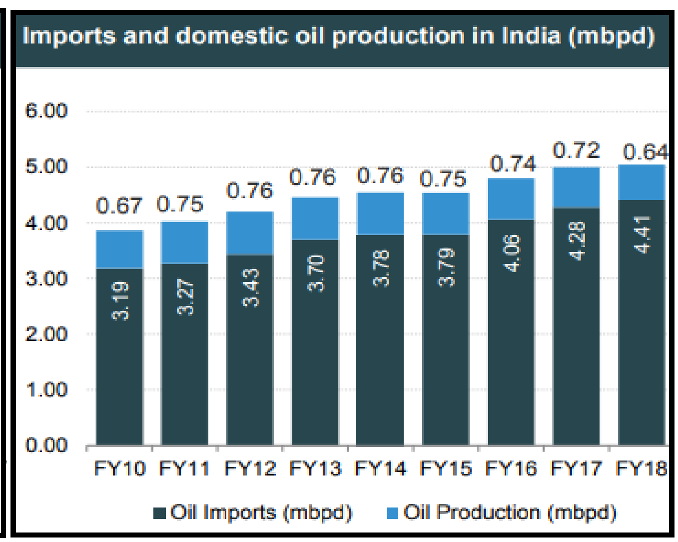


Fig 3(a) Oil Consumption in India/ Fig 3(b) Oil Imports in India

- Petrochemicals account for nearly 30% of the Indian chemicals industry. Over the past decade, domestic demand has grown at a compound annual growth rate (CAGR) of 8-9% due to increasing consumption of plastics driven by a rise in substitution and new uses. In the past 5 years, domestic demand has logged a 7-8% CAGR as demand from end-use applications such as packaging, automobiles, and electricals and electronics remain healthy.
- Capacities for ethylene and propylene constitute nearly 80% of the total capacity for basic petrochemicals. The performance of the petrochemicals industry is often benchmarked to ethylene. Growth in polymers is largely

linked to the economy. With India's GDP growth expected to be healthy over the long term, polymer demand will also grow, driven by the packaging, automobiles, consumer durables, construction, and irrigation sectors.

- India's per capita consumption of plastics is only about 10 kg compared with the global average of 30 kg, which underscores the potential for polymers. Domestic demand for ethylene (primarily polyethylene and monoethylene glycol) and propylene is expected to grow at a CAGR of 7-8% between FY18-25.
- Petrol and diesel typically account for over 50% of the overall refinery slate (The Jamnagar refinery of RIL is an exception as the slate of petrol and diesel there is ~35%. RIL has emphasized on increasing the oil to chemicals ratio at the refinery). With slowdown in fuel demand and reduction in GRMs, refineries are staring at profitability risk. This calls for major technological advances in the refinery and petrochemicals industry.
- An emerging trend globally is the crude-to-chemicals complex, wherein the processes of refinery and petrochemicals are merged. The objective of this technology is to shift the products derived from a barrel of oil from the traditional 15% - 25% to 40% - 80% range of chemical feedstocks and non-fuel products.

Industry Outlook – Organized Retail

- The Indian retail industry has emerged as one of the most dynamic and fast-paced industries and seen the entry of several new players. Retailing accounts for over 10% of the country's GDP and around 8% of the employment.

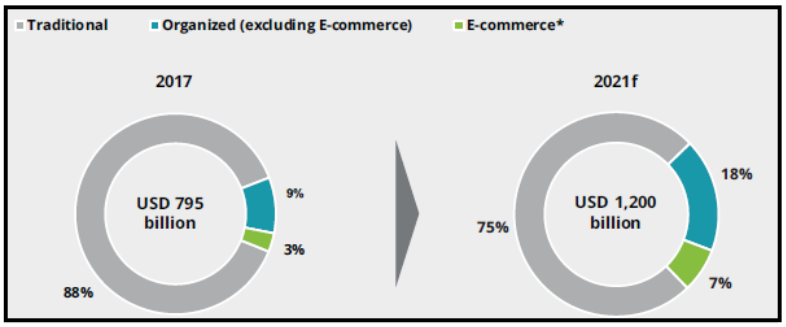
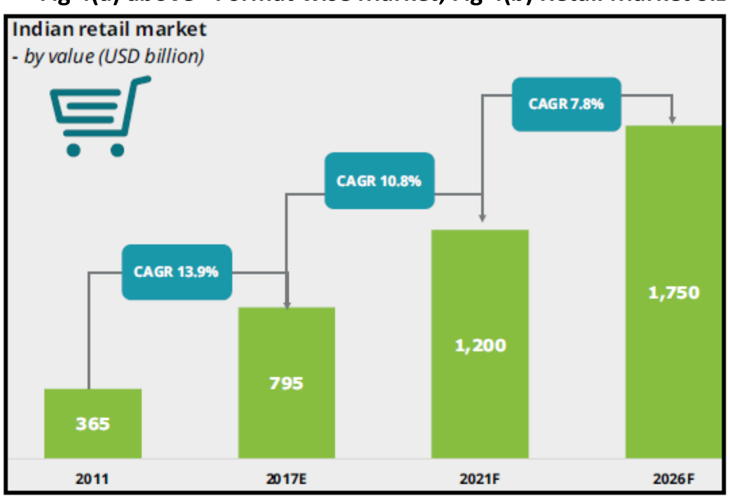
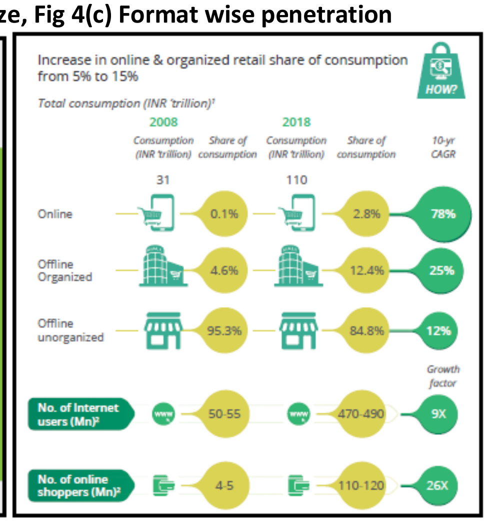


Fig 4(a) above - Format wise Market, Fig 4(b) Retail Market Size, Fig 4(c) Format wise penetration





- Driven by technology and modernization, the retail sector in India is at the cusp of evolution. Disruptions in the value chain – sourcing, mfg., transportation, procurement, warehousing and inventory, distribution, marketing and advtg, selling, logistics, delivery, after sales servicing, etc. – are driving this evolution.
- Retail in India will grow from an US$ 672 bn. in 2017 to US$ 1,200 bn. in 2021F. India may become the world's fastest growing e-commerce market, driven by robust investments and increase in the number of internet users.

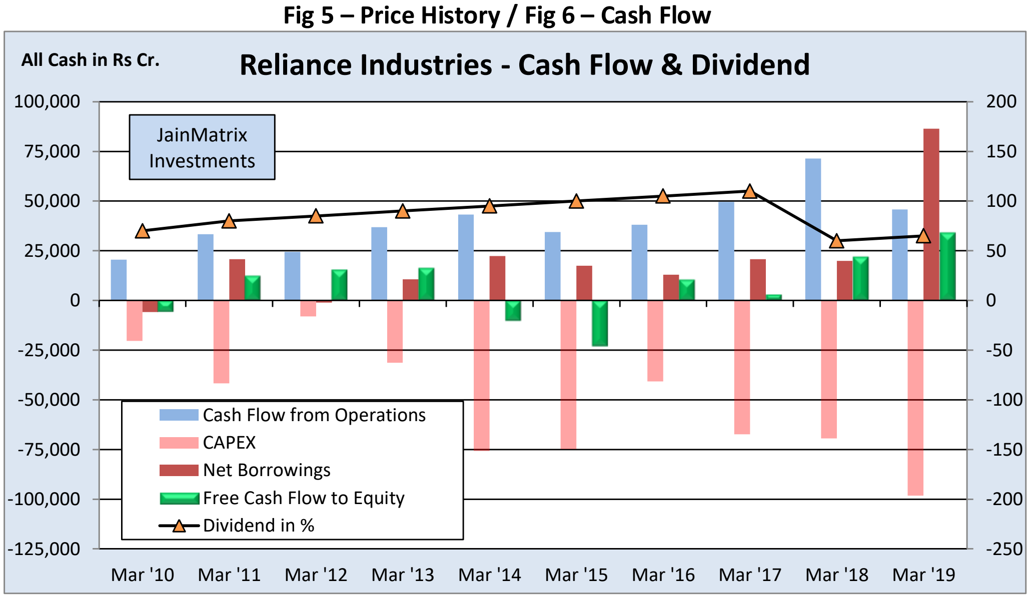
- Further, as the internet penetration in the country increases and more international retailers start operating in India, the share of organized retail market is expected to increase from ~12% in 2017 to 22-25% by 2021. This will also be driven by the growth of e-commerce market from USD24 bn. in 2017 to USD84 bn. in 2021.

Industry Outlook – Telecom

- India is currently the world's 2^{nd} largest telecom market with 120 crore subscribers and has registered strong growth. Telecom penetration, also known as tele-density grew from 18.2% in FY07 to 92.84% in FY18. With 60.4 cr. internet subscribers as of Dec 2018, India is the world's 2nd largest market in terms of total internet users. The number of internet subscribers in the country is expected to touch 82.9 cr. by 2021 and overall IP traffic is expected to grow 4-fold at a CAGR of 30% by 2021. Availability of affordable smartphones and low rates of data/ calls are expected to drive growth.
- In Feb 2013, the SC cancelled 122 telecom licenses. By Sept 2018, only 4 of 14-15 players survived.
- India holds the distinction of being the largest consumer of mobile data globally. Data consumption in the country has witnessed exponential growth in the past few years. Total wireless data usage in India grew 131.12% YoY to 12,549,891 terabytes between July-Sept 2018.
- In today's scenario, while consumers and govt. are benefiting with low prices and high tax revenues and levies resp., network operators are under pressure on costs and profits. The 4 player structure should survive, and market shares may stabilize for all players, once prices correct. However this may take at least a year.

Stock Evaluation, Performance and Returns

Fig 5 – Price History / Fig 6 – Cash Flow



- The RIL share price has grown at 23% CAGR over 5 years and at 30.6% over 2 years. See Fig 5. It generated positive FCFE in 7 of 10 years. Cash from operations is strong however CAPEX has risen recently leading to high debt. For FY19 the net debt stood at ₹86,456 cr. against ₹45,736 cr. CFO. Conso D/E was 0.70 in FY19. See Fig 6.

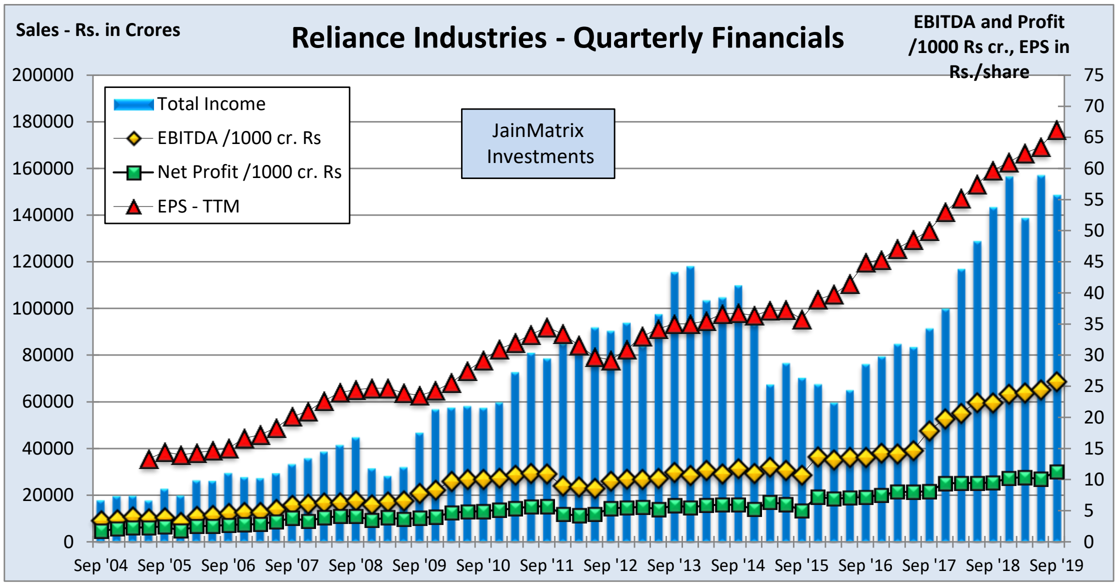


Fig 7 FIL Financials

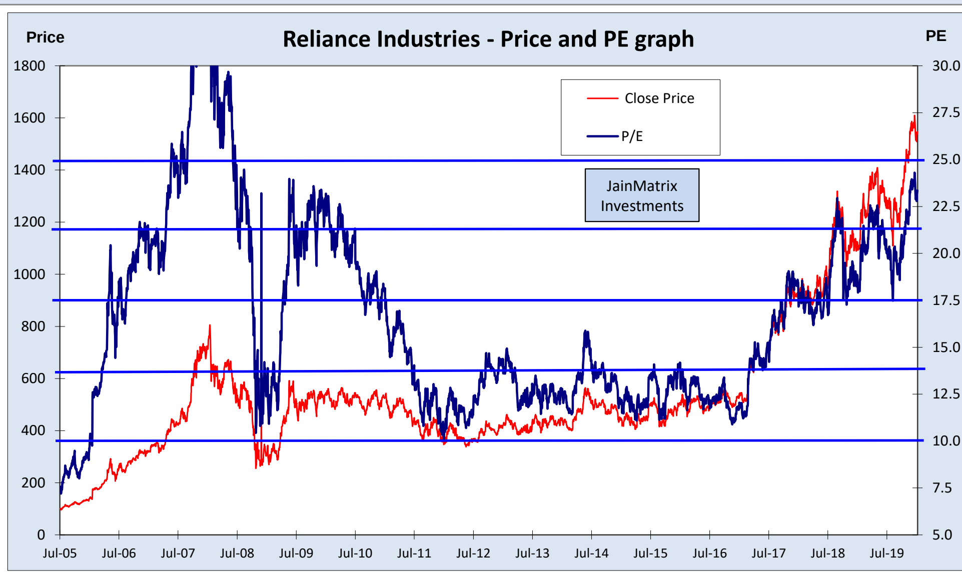


Fig 8(a) – Price and PE

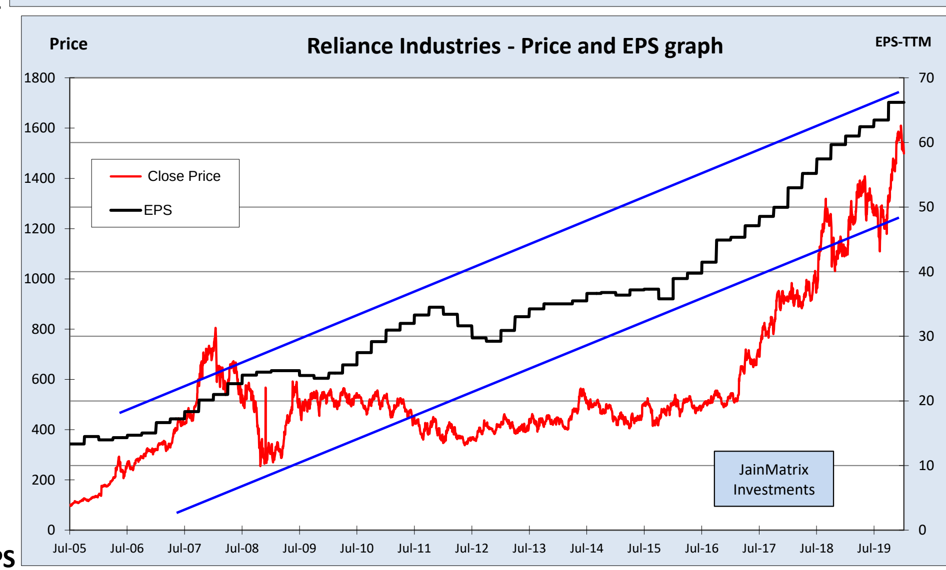


Fig 8(b) – Price and EPS

- Revenues, EBITDA and PAT have grown at 14.5%, 13.7% and 9.7% CAGR from FY09-19. See Fig 7. EBITDA margin is flattish over 10 years whereas PAT margin has fallen about 200 bps during the same period.
- Dividends rose until FY17, then dipped sharply with higher CAPEX needs from here.
- The 10 year or long term PAT growth is unimpressive at <10%. However PAT growth should accelerate in the medium term given (a) corporate tax rate cut (b) Maturity of new verticals of Telecom and Retail (c) Improvement in PAT margin (down from 10.7% in FY09 to 7% in FY19) (d) Economic recovery
- Revenue for FY15 declined 13% YoY because of fall in crude oil prices in H2 FY15. Crude averaged $85.4/bbl in FY15, a fall of 21% Y-o-Y. However PAT margin spiked at 6.2% for FY15. See Fig 7.
- In Fig 8(a) we track 15 years of PE and price data. The 10 year PE average is 17.5 times, but the recent surge implies a re-rating. Currently RIL is trading at a PE of 22.6 times and is in top quadrant. The EPS TTM has also improved sharply in the last 4 years, and has been achieving new highs. Fig 8(b).
- The FY19 remuneration of Mukesh Ambani was ₹15 cr. and ₹20.5 cr. each for Nikhil & Hital Meswani. This does not appear high w.r.t to the scale & size of operations of RIL.
- ROCE and ROE for FY18 are 10.4% and 10.2% resp. which is low. 5 year average ROE for RIL is 11.5%. Hence despite CAPEX, profit growth has been low. RIL faces a de-rating risk if returns do not improve in medium term.
- The D/E of the firm has risen from 0.68 to 0.70 times (FY15 through FY19). RIL is trying to deleverage its balance sheet and has targeted to become a debt free company in the next 18 months. This is a positive.

Benchmarking and Financial Estimates

We present a benchmarking exercise with listed peers in the integrated refining business. Additionally we compare it with players from organized retailing, chemicals and telecom space as RIL is a diversified conglomerate. See Exhibit 9.

- In terms of P/E as well as EV/EBITDA the valuations of RIL are the highest as compared to other pure play refining players. RIL enjoys higher valuations due to scale, exports, and new operations in consumer facing businesses.
- 3 year CAGR sales growth is the highest for RIL, a positive. However 3 year PAT growth is unimpressive at 10%.
- RIL's consolidated D/E is the lowest at 0.7 times. This can reduce further if the company reduces debt.
- Margins for RIL are the highest due to presence in various other sectors apart from refining and petrochemicals.
- Return ratios for RIL are the lowest amongst its peers. The 5 year average RoE for RIL at 11.5% indicates that recent business investments have consumed substantial capital, propelled sales growth but has not yet translated into profit growth. This is a key concern. Low return ratios for extended periods can lead to sharp de-rating.

14-Oct-19	Integrated Refining				Organized Retail		
Particulars	Reliance Industries	BPCL	HPCL	Indian Oil	Avenue Supermarts	Future Retail	Trent
Revenues in Rs. cr's (FY19)	567,135	298,225	275,473	528,149	20,004	20,332	2,630
EBITDA in Rs. cr's (FY19)	92,553	17,150	12,980	37,936	1,685	1,055	269
Profits in Rs. cr's (FY19)	39,588	7,802	6,690	17,376	902	727	97
Market Cap - Rs. Crores	836,827	107,182	47,101	138,388	114,092	19,151	17,934
PE (x) TTM	20.79	18.14	9.20	10.03	111.74	25.80	122.15
Price to Book Value (x)	2.11	2.61	1.67	1.21	20.39	4.97	10.55
3 Yr CAGR Sales (%)	27.44	16.66	15.69	15.14	32.58	43.64	3.14
3 Yr CAGR Profit (%)	10.00	-1.20	12.70	11.86	41.26	268.32	15.49
Debt to equity ratio (x)	0.70	1.11	0.86	0.82	0.08	0.66	0.24
EBITDA Margin (%)	16.32	5.75	4.71	7.18	8.42	5.19	10.23
Net Profit Margin (%)	6.98	2.62	2.43	3.29	4.51	3.58	3.69
Return on Equity (%)	10.22	20.12	22.00	15.45	16.15	18.90	5.88
RoCE (%)	10.45	16.38	19.73	16.87	25.42	21.57	10.92
Dividend Yield (%)	0.49	3.85	5.14	6.29	0.00	0.00	0.26
EV/EBITDA (x)	11.67	7.13	5.32	6.40	54.68	23.69	45.78

Exhibit 9 – Benchmarking

Financial Projections: We present 3 year financial projections for RIL, see Exhibit 10.

	Mar '17	Mar '18	Mar '19	Mar '20 E	Mar '21 E	Mar '22 E
Sales Turnover - crores	305,382	391,677	567,135	661,365	742,260	835,976
EBITDA - crores	55,627	73,038	92,553	112,432	127,669	145,460
Net Profit - crores	29,871	34,988	39,588	49,780	55,695	61,966
EPS - Rs/share	47.1	55.2	62.5	78.5	87.9	97.8
PE (at current Price)	-	-	24.8	19.7	17.6	15.8

Exhibit 10 – 2 year Projections

The projection assumptions are detailed in the last section.

Strengths

- Strong brand equity and financial position has allowed RIL to venture into new sectors and scale up businesses.
- Mukesh Ambani is a visionary leader and his projects have excellent execution. His firms are able to manage political and regulatory risks very well, so all required permits, permissions and licenses are obtained speedily.
- Stable earnings growth over the last 15+ years. RIL has consistently reported earnings growth over the last 60 quarters with a few exceptions despite periods of business uncertainty and volatility.
- RIL has the world's largest oil refinery in Jamnagar. After meeting India needs, RIL is now India's biggest exporter.
- RIL is leveraging its solid Refinery and Petchem businesses to reinvest in new businesses of Retail and Telecom. While these are unrelated to the old business, the scale of investment and good execution has already seen both businesses ranked at or near #1 by revenues in their sectors. Thus these can secure RIL leadership for decades.
- These 2 new businesses were created from the RIL balance sheet so the promoter has very cleverly and diplomatically navigated the heavy investment phase and all approvals for diversification.
- RIL had 10,415 retail stores as of FY19. Organized Retailing is a fast growing business in India. RIL can use its experience to grow this vertical faster than its peers given the opportunity size in Indian markets going ahead.
- Reliance Jio currently has a 30% revenue market share in the telecom industry. It is projected to grow to 45% by FY22. Telecom industry has now become an oligopoly with 3-4 incumbents. Such a significant market share would provide RIL with huge pricing power and earnings stickiness in the future.
- Both these businesses are large by revenue. As operations stabilize, margins are set to improve in next few years.
- RIL is now focusing on its eCommerce venture (www.ajio.com) which will be synergistic with Retail and Jio firms. It may take on Amazon India and Flipkart which are the current leaders in this space in India.
- There is a possibility of Reliance Retail and Jio firms getting listed in the next few years. This will unlock value for RIL and clarity will emerge on the true independent Balance Sheets of these firms.
- The RIL group has an excellent 2nd and 3rd line of command, so performance is not dependent only on Mukesh Ambani. In addition his 3 children are now being groomed to work in these group businesses.
- RIL has always been a fierce competitor. In the 80s and 90s it was difficult for any private sector firm to compete directly with RIL in refining and petchem. Something similar appears to be unfolding in Telecom sector today.

Risks and Challenges

- RIL and ONGC had issues regarding gas exploration. In 2013, ONGC had alleged that RIL was siphoning gas from ONGC's block in the Krishna-Godavari (KG) basin by deliberately drilling wells close to its block. RIL later won the case, however such legal hurdles can affect business operations.
- Adverse petroleum prices/margins. For FY19 more than 75% of the operating profits were generated from the refining and petrochemicals verticals.
- From Jun2009 to Jan2017, the RIL share was flat with only returns in the form of dividend. It surely
- Weak domestic gas prices can affect margins. Weak US natural gas prices could lower the profitability of shale gas assets. For FY19, RIL reported an operating loss for the oil & gas vertical at ₹1,379 cr. RIL's hydrocarbon E&P business (both in KG basin and the US shale gas assets) are bleeding heavily with losses - an earnings loss of nearly ₹3,000 cr. in FY18 and FY19. Volumes continued to decline.

- RIL's entry as a telecom operator with a 4G network was aggressive, as RIL offered mobile connections for free till Apr 2017, and priced very low thereafter, **pushing the sector into hyper competition**. Even today, the 3 other players are struggling for profits. The industry is in bad shape, and GoI may have to help these survive. So in the telecom sector, the current equations among players may be changed by regulatory intervention.
- RIL had an outstanding debt of ₹2,87,505 cr. and it grew by ₹69,000 cr. in FY19 because of investments in Jio. Last 5 years RIL has done over ₹3.5 lakh cr. of CAPEX. However the big CAPEX cycle might be over and also the firm has reserves of ₹1,33,027 cr. RIL is targeting to become debt free in the next 18 months.
- GoI has started to ban single use plastics which aren't getting recycled. As more and more plastic bans get enforced in India as well as globally, the demand for RIL's polyester/polymer products could get impacted. Stricter environmental laws and NGOs against oil exploration can adversely affect RIL's business.
- RIL on an ongoing basis acquires companies in verticals where they have business operations or where they plan to commence business operations. Such mergers/acquisitions might not be value accretive in the future.
- RIL has business operations in various sectors. Hence growth of the business is directly linked with the growth of the overall Indian economy. Thus in lackluster economic situation, the financials of RIL could get impacted.
- All of RIL's refineries are located in Jamnagar, Gujarat. Thus there is a location concentration with risks like earthquake, floods, sabotage, war attack, etc.

Overall Opinion, Outlook and Recommendation

- RIL has over decades proven its ability to build businesses of global scale and execute complex, time critical, and capital-intensive projects. RIL has performed very well financially over the last 2 decades despite cycles of volatility and business fluctuations.
- 80% of RIL's operating profits are being generated from refining and petchem verticals. These businesses are resilient with predictable earnings. Going ahead other verticals are expected to contribute meaningfully. RIL earnings has green shoots from (a) Improving ARPU from Jio's wireless business (b) Launch of Jio Fiber Broadband (c) Traction in enterprise solutions service offering (d) Lower interest costs as RIL aims to become debt free by FY21. E) Retail business is of good size and margins should stabilize and improve.
- RIL has low return ratios at ~10% (RoE and RoCE). But these will improve from now.
- Key risks are (a) Adverse crude prices/ petroleum margins (b) Inability to reduce debt at the committed pace (c) Lower plastic consumption affecting the petchem vertical (d) Muted growth in Indian economy (e) regulatory changes in telecom.
- RIL's 5 year and 10 year historical average PE has been 14 times. Current valuation at 23X PE looks expensive however with higher profits, improved return ratios and lower debt position, the stock is undergoing a re-rating.
- We project a target price for RIL of ₹2,200 by May 22, a rise of 42% absolute or 17% annualized. The price projection assumptions are detailed in the last section.

Assumptions, Disclaimer and Disclosure

Financial Projections were made separately for Refining & Petrochem, Retail and Telecom verticals. For R&P, we took revenue growth assumptions of 5-10%; for Retail 30% and Telecom based on current quarterly growth trajectory and 20% in FY22. The EBITDA is 17% of revenue and profit ratios overall are similar to FY19. The target price was based on a PE of 22.5 times for RIL, lower than current and higher than historic due to newer verticals.