

# Stock Update

Strong petchem performance; Telecom margins declined slightly due to lower APRU

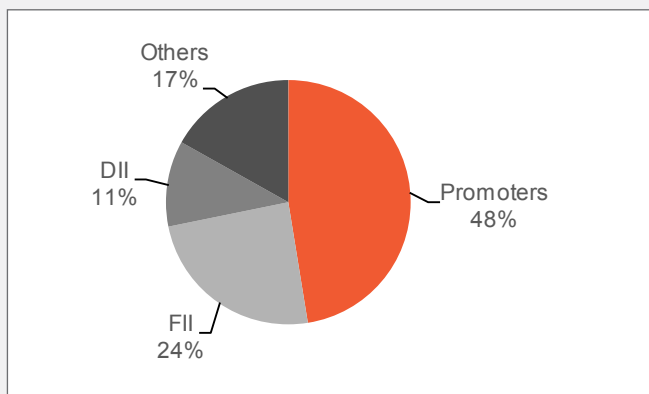
## Reliance Industries

Reco: Buy | CMP: Rs995

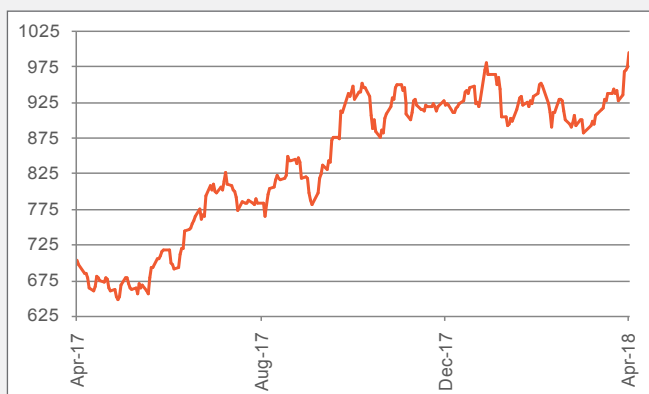
### Company details

Price target:	Rs1,110
Market cap:	Rs630,185 cr
52-week high/low:	Rs1011/648
NSE volume: (No of shares)	63.0 lakh
BSE code:	500325
NSE code:	RELIANCE
Sharekhan code:	RELIANCE
Free float: (No of shares)	332.9 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	1.0	3.0	38.7
Relative to Sensex	3.1	4.7	-2.0	18.9

### Key points

- Largely in-line operating profit; PAT marginally higher than estimates due to higher-than-expected other income:** Reliance Industries Limited (RIL) reported largely in-line standalone operating profit of Rs. 13,425 crore in Q4FY2018 as marginal beat in petrochemical EBIT margin at 17.2% and higher-than-expected petrochemical production at 8.8 mmt (up 42% y-o-y) were offset by lower-than-expected gross refining margin (GRM) at \$11/bbl (vs. our estimate of \$11.3/bbl). RIL's GRM premium over Singapore complex GRM narrowed down to \$4/bbl in Q4FY2018 vs. \$4.4/bbl in Q3FY2018 and crude throughput was also lower at 16.7 mmt (down 5.6% q-o-q) due to planned turnaround activities. RIL's standalone profit after tax (PAT) of Rs. 8,697 crore was marginally higher than our estimate of Rs. 8,563 crore, primarily on the account of higher-than-expected other income. Domestic oil and gas business continued to disappoint with a 41% y-o-y decline in natural gas production to 13.7 billion cubic feet (bcf) from KG D-6 block and EBIT loss of Rs. 416 crore during the quarter.
- Reliance JIO net profit largely flat q-o-q:** Reliance JIO (RJIO – Digital Services business) reported EBITDA margin of 37.8% (EBITDA of Rs. 2,694 crore) and PAT of Rs. 510 crore in Q4FY2018, which was largely flat on a sequential basis. Average revenue per user (ARPU) declined by 11% q-o-q to Rs. 137.1, but subscriber addition continued to remain robust with net subscriber addition of 2.65 crore in Q4FY2018 (vs. 2.15 crore in Q3FY2018), taking subscriber base to ~18.66 crore as on March 31, 2018.
- Outlook – Robust margin outlook for core businesses of refining and petchem; Telecom financials to improve with growth in revenue market share:** We expect RIL to benefit from higher refining margin as the economics of its petcoke gasification project would improve given the recent surge in oil price. We highlight here that every \$10/bbl increase in crude oil price could add \$0.4/bbl to the GRM of RIL as a result of cost savings from the petcoke gasification plant. Moreover, recently commissioned downstream projects especially Refinery Off Gas Cracker (RoGC) have stabilised and expected to benefit from the likely firming-up of propylene and MEG margins. We expect improvement in the financials of the telecom business, given our assumption of growth in RJIO's revenue market share and improvement in margins on account of operating leverage.

- ♦ **Valuation – Maintain Buy rating with unchanged PT of Rs. 1,110:** We have fine tuned our FY2019 and FY2020 earnings estimates to factor in higher subscriber base and marginally lower APRU for the telecom business. We maintain our Buy rating on RIL with unchanged price target (PT) of Rs. 1,110, as we remain positive on the earnings growth momentum (expect

13% EBITDA CAGR over FY2018-FY2020E) on account of the recently commissioned RoGC project and ramp-up of petcoke gasification project along with gradual improvement in the financials of the telecom business. At the CMP, the stock is trading at 13.9x its FY2019E EPS and 13x its FY2020E EPS.

**Results (Standalone)**

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	Rs cr QoQ (%)
Net sales	84,037	67,146	25.2	73,256	14.7
Total expenditure	70,612	55,866	26.4	59,512	18.7
RM consumed	58,918	45,654	29.1	51,767	13.8
Stock adjustment	(439)	(560)	(21.6)	(3,162)	(86.1)
Purchase of FG	2,193	1,386	58.2	1,112	97.2
Staff expenses	1,246	1,218	2.3	1,142	9.1
Other expenses	8,694	8,168	6.4	8,653	0.5
Operating profit	13,425	11,280	19.0	13,744	(2.3)
Other income	2,621	1,371	91.2	1,624	61.4
EBITDA	16,046	12,651	26.8	15,368	4.4
Interest	1,460	235	521.3	1,094	33.5
Depreciation	2,679	2,409	11.2	2,475	8.2
PBT	11,907	10,007	19.0	11,799	0.9
Exceptional item					
Tax	3,210	1,856	73.0	3,345	(4.0)
PAT	8,697	8,151	6.7	8,454	2.9
Extraordinary items					
Reported PAT	8,697	8,151	6.7	8,454	2.9
EPS	13.7	12.9	6.7	13.3	2.9
			BPS		BPS
OPM%	16.0	16.8	(82)	18.8	(279)
PATM%	10.3	12.1	(179)	11.5	(119)
Tax rate %	27.0	18.5	841	28.3	(139)

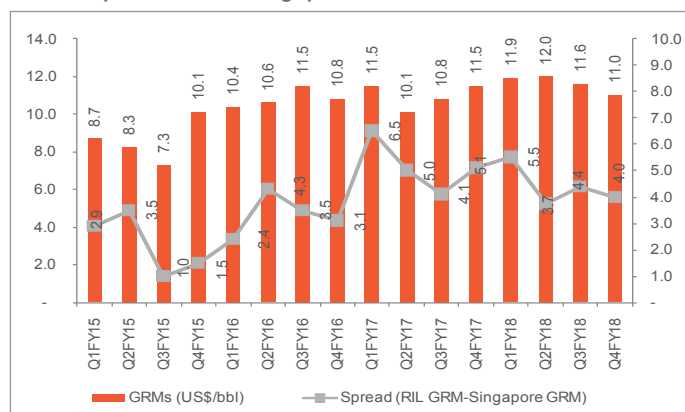
Source: Company data

**Segment-wise performance (Consolidated)**

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	Rs cr QoQ (%)
<b>Gross Revenue</b>					
Petrochemicals	38,113	26,478	43.9	33,726	13.0
Refining	93,519	72,045	29.8	75,865	23.3
Oil& gas	746	1,309	(43.0)	1,631	(54.3)
Organized Retail	24,183	10,332	134.1	18,798	28.6
Digital Service	8,421	154	5,368.2	8,136	3.5
Others	3,367	3,342	0.7	3,026	11.3
Total Gross Revenue	168,349	113,660	48.1	141,182	19.2
Less: Segment Transfer	39,229	20,771	88.9	31,277	25.4
Turn over	129,120	92,889	39.0	109,905	17.5
Less: excise duty	12,205	8,066	51.3	10,095	20.9
Net sales	116,915	84,823	37.8	99,810	17.1
<b>EBIT</b>					
Petrochemicals	6,435	3,441	87.0	5,753	11.9
Refining	5,607	6,294	(10.9)	6,165	(9.1)
Oil& gas	(600)	(486)	23.5	(291)	106.2
Organized Retail	951	243	291.4	487	95.3
Digital Service	1,495	(32)	(4,771.9)	1,440	3.8
Others	836	267	213.1	284	194.4
Total EBIT	14,724	9,727	51.4	13,838	6.4
<b>EBIT Margins (%)</b>			<b>YoY bps</b>		<b>QoQ bps</b>
Petrochemicals	16.9	13.0	389	17.1	(17)
Refining	6.0	8.7	(274)	8.1	(213)
Oil& gas	(80.4)	(37.1)	NA	(17.8)	NA
Organized Retail	3.9	2.4	158	2.6	134
Digital Service	17.8	(20.8)	3,853	17.7	5
Others	24.8	8.0	1,684	9.4	1,544
Total EBIT Margin	8.7	8.6	19	9.8	(106)

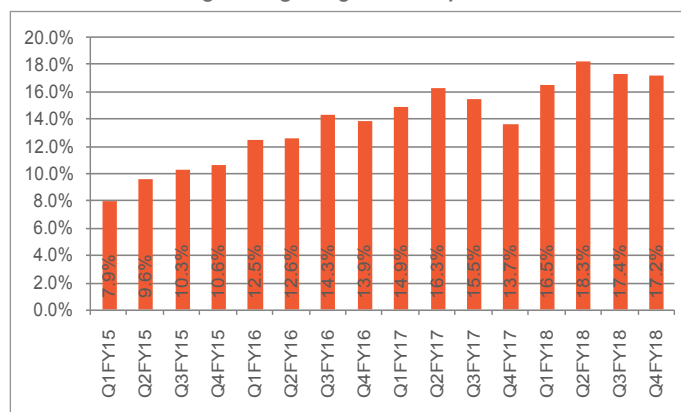
Source: Company data

## RIL GRM premium over Singapore GRM narrowed down to \$4/bbl



Source: Company data

## Petrochemical margin marginally above expectation



Source: Company data

## Consolidated Q4FY2018 results snapshot

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	Rs cr
Net sales	116,915	84,823	37.8	99,810	17.1
Total expenditure	98,446	72,590	35.6	82,222	19.7
Raw material consumed	60,789	47,710	27.4	54,864	10.8
Stock adjustment	(1,351)	(763)	77.1	(6,633)	(79.6)
Purchase of finished goods	22,845	12,684	80.1	17,489	30.6
Employee expenses	2,475	2,366	4.6	2,333	6.1
Other expenses	13,688	10,593	29.2	14,169	(3.4)
Operating profit	18,469	12,233	51.0	17,588	5.0
Other income	2,203	1,936	13.8	2,218	(0.7)
EBITDA	20,672	14,169	45.9	19,806	4.4
Interest	2,566	556	361.5	2,095	22.5
Depreciation	4,852	3,354	44.7	4,530	7.1
PBT	13,254	10,259	29.2	13,181	0.6
Exceptional item	-	-	-	-	-
Tax	3,787	2,201	72.1	3,775	0.3
PAT	9,467	8,058	17.5	9,406	0.6
To associates & Minority interest	(8)	(5)	60.0	39	(120.5)
Extraordinary items	-	-	-	-	-
Reported PAT	9,459	8,053	17.5	9,445	0.1
Adjusted PAT	9,459	8,053	17.5	9,445	0.1
EPS	16.0	13.6	17.5	16.0	0.1
			<b>BPS</b>		<b>BPS</b>
OPM%	15.8	14.4	138	17.6	(182)
PATM%	8.1	9.5	(140)	9.5	(137)
Tax rate %	28.6	21.5	712	28.6	(7)

Source: Company data

## Valuation (Consolidated)

Particulars	FY17	FY18	FY19E	FY20E	Rs cr
Net sales	305,382	391,677	384,401	413,806	
growth (%)	11.5	28.3	-1.9	7.6	
Operating Profit	46,194	64,176	74,725	81,579	
OPM %	15.1	16.4	19.4	19.7	
Adj PAT	29,833	34,993	42,222	45,112	
Adj. EPS (Rs)	50.4	59.1	71.3	76.2	
% y-o-y change	17.5	17.3	20.7	6.8	
PER (x)	19.7	16.8	13.9	13.0	
EV/EBIDTA (x)	16.6	11.9	10.3	9.4	
Dividend yield (%)	0.6	0.6	0.6	0.6	
RoCE (%)	9.3	10.6	10.6	10.2	
RoNW (%)	11.2	11.9	12.3	11.7	

Source: Company data, Sharekhan estimates

# Sharekhan

by BNP PARIBAS

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