

Reliance Industries Ltd.



RESULT UPDATE

2nd May, 2018

Reliance Industries Ltd

Petchem and refining drive growth with a surprise from retail

CMP INR 972	Target INR 1442	Potential Upside 48.4%	Market Cap (INR Mn) 6,101,694	Recommendation BUY	Sector Oil & Gas
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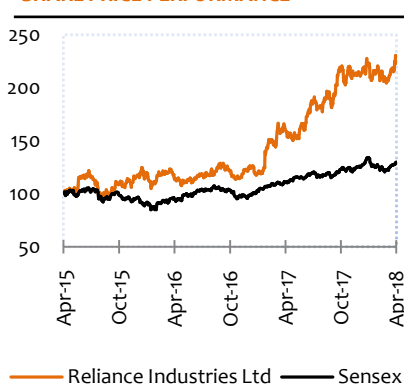
Result highlights

Reliance Industries Ltd (RIL) reported net profit of INR 94,590 mln (up 17.5% YoY and 0.1% QoQ). Under the refining segment, the GRM's of \$11/bbl were in-line with market expectations. It outperformed benchmark Singapore Complex margins by \$4/bbl. Consolidated revenue increased by 17.2% QoQ and 29.3% YoY to INR 12,01,430 mln for the quarter ending March as against INR 9,28,890 mln in year-ago period. The surge in the revenues was primarily driven by a superior performance in the refining, petchem and digital business. The petchem segment witnessed a higher volume increase along with the commissioning of the petchem projects and due to the surge in the oil prices leading to higher realizations for the refining and petchem products. GRMs stood at \$11/ barrel compared to \$11.6/barrel in Q3FY18 and \$11.5/bbl in Q4FY17. GRMs were marginally lower QoQ because of decrease in naphtha, gasoline and fuel oil cracks as against the previous quarter. On a QoQ basis, gasoline cracks decreased 6.8% QoQ at \$9.6/bbl as compared to Dubai Fateh Crude and diesel cracks decreased 125% QoQ at -\$0.7/bbl as compared to Dubai Fateh crude. Petchem EBIT increased by 11.9% QoQ and 87% YoY driven by higher volumes from the paraxylene and ROGC cracker along with higher realizations for petchem products. Retail business performance came as a surprise as it posted an EBIT of INR 9,510 mln for the quarter up 95.3% QoQ and 291.4% YoY. RIL's outstanding debt stood at INR 2,187,630 mln as on March 31, 2018 as compared to INR 1,966,010 mln as on March 31, 2017. Cash in books stood at INR 780,630 mln Vs INR 772,260 mln in March 31, 2017. The capital expenditure for the quarter ended March 2018 was INR 210,720 mln including exchange rate difference. Capital expenditure was principally on account of Digital Services business, retail business and the balance of expenditure for projects in the petrochemicals and refining business. The board has declared a dividend of INR 6 per equity share on the FV of INR 10.

MARKET DATA

Shares outs (Mn)	6335
Equity Cap (INR Mn)	63355
Mkt Cap (INR Mn)	6101694
52 Wk H/L (INR)	1010/647
Volume Avg (3m K)	7170
Face Value (INR)	10
Bloomberg Code	RIL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	35176
NIFTY	10718

SHARE HOLDING PATTERN (%)

Particulars	Mar 18	Dec 17	Sep 17
Promoters	46.19	46.2	46.21
FII's	23.81	23.55	23.01
DII's	10.94	11.12	11.29
Others	19.06	19.14	19.49
Total	100	100	100

KEY FINANCIALS

Particulars (INR Mn)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	27,41,510	30,53,820	39,16,770	48,41,785	53,05,095
EBITDA	4,17,560	4,62,060	6,41,760	8,21,757	9,12,065
PAT	2,96,340	2,99,380	3,60,210	4,67,223	5,27,686
EPS Diluted (Rs.)	50.52	50.42	60.92	79.22	89.48
OPM	15.2%	15.1%	16.4%	17.0%	17.2%
NPM	10.8%	9.8%	9.2%	9.6%	9.9%
P/E (x)	19.2	19.3	16.0	12.3	10.9

Source: Company, KRChoksey Research

Valuation & Recommendation:

The consolidated annual revenues grew significantly at 30.5% over FY17 to INR 4,307,310 mln with a net profit of INR 360,750 mln as against INR 299,010 mln, an upside of 20.6% over the previous year. The healthy performance can primarily be attributed to a strong execution in the petrochemicals, refining and its flagship digital services business. The robust performance from the retail business has also contributed to the company's sturdy achievement.

The company's petrochemical business has surpassed the refining business in terms of EBIT and EBIT margins supported by higher realization for the products along with improved volumes from the ROGC cracker.

The revenues from the petchem segment came in at INR 381,130 mln up 13% QoQ and 43.9% YoY due to support from the increased volumes from the Paraxylene and ROGC cracker which commissioned in January this year. The segment EBIT reached its highest - ever level at INR 64,350 mln, up 11.9% QoQ and 87% YoY. With complete stabilization of the ROGC cracker, we expect a significant integration leading to cost advantage and feedstock flexibility resulting in higher margins for the petchem segment which is already reporting a good growth. As for refining segment, RIL with its superior complexity of the refinery and colossal capacity, we expect the company to deliver constructive GRM of ~\$11-12.5/bbl over FY19E/20E.

14.9%

Revenue CAGR between FY 18 and FY 20E

19.2%

EBITDA CAGR between FY 18 and FY 20E

ANALYST

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We believe that RIL has now neared the completion of its 3-lakh crore capital expenditure cycle and these investments will now begin to deliver by way of improved margins and boosted cash flows. The ROGC cracker has been fully stabilized in this quarter which will help to produce high value polymer derivatives from low-cost fossil fuels resulting in lower feedstock costs for the company. In addition, the pet coke gasification project complimented by the rise in the crude prices will further help to improve the company's financial performance.

Jio business reported a net subscriber base of 186.6 million at the end of March, a net subscriber addition of 26.5 mln. Although the company's aggressive pricing strategy has helped to increase its subscriber base, it has resulted in a lower average rate per user (ARPU) of INR 137.1 per month, which is still comparable to other players in the industry. Nevertheless, with the segment exhibiting a secured performance for the quarter, we expect the segments financials to improve further due to its growing popularity, increasing market share, highly competitive price tariffs and a strong operating leverage.

As for the retail segment, RIL has managed to achieve a 45% CAGR over the past 5 years. Reliance retail has become the first retailer in India to cross the \$10 billion revenue milestone. It has also managed to add another 86 stores across various store concepts has presence in 750 cities with an area of over 17.7 million sq. ft. With RIL's plans to further enhance its presence in the retail division as seen in the past few years, we can expect this segment to increase its share of contribution to the company's profitability.

We recommend BUY with the target price of INR 1,442/share based on SOTP methodology.

SEGMENTAL PERFORMANCE

Refining & Marketing Segment:

GRM for the quarter stood at \$11/bbl as against \$11.6/bbl in Q3FY18 and \$11.5/bbl in Q4FY17. The revenues were up both YoY and QoQ to INR 935,190 mln while the EBIT margins decreased to 6% from 8.1% in Q3FY18. The higher revenues came from 10% higher Brent oil prices even though the throughput marginally decreased to 16.7 MMT. The lower GRM was attributed to the lower gasoline, naphtha and fuel oil cracks. The GRM for the quarter widened over the Singapore GRM by \$4/bbl (\$4.4/bbl in Q3FY18) due to lower naphtha and fuel oil cracks which pushed the benchmark downwards from \$7.2/bbl in Q3FY18 to \$7.0/bbl for Q4FY18.

(INR Million)	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Segment Revenue	9,35,190	7,58,650	7,20,450	23.3%	29.8%
EBIT	56,070	61,650	62,940	-9.1%	-10.9%
Crude Refined (MMT)	16.7	17.7	17.5		
GRM (USD/bbl)	11.0	11.6	11.5		
EBIT Margin (%)	6.0%	8.1%	8.7%	-213.1 bps	-274.1 bps

Source: Company, KRChoksey Research

Petrochemical business: Revenues were robust, up 13% QoQ and 43.9% YoY driven by a mix of higher realizations for petchem products along with higher volumes from the paraxylene and fully stabilized ROGC cracker. The high demand for polyesters and polymers helped the company to reach its highest production levels at 8.8 MMT (8 MMT in Q3FY18 and 6.2 MMT in Q4FY17). Segmental EBIT increased to INR 64,350 mln, up 11.9% QoQ and 87% YoY led by strong polymer deltas and healthy polyester chain deltas as well as higher margins for polypropylene.

(INR Million)	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Segment Revenue	3,81,130	3,37,260	2,64,780	13.0%	43.9%
Segment EBIT	64,350	57,530	34,410	11.9%	87.0%
EBIT Margin (%)	16.9%	17.1%	13.0%	-17.4 bps	388.8 bps
Production in India (MMT)	8.8	8.0	6.2		

Source: Company, KRChoksey Research

Oil & Gas (Exploration & Production):

Revenue for the quarter declined both QoQ and YoY to INR 7,460 mln. The declining performance was mainly attributed to the declining volumes. However, revenues for the year increased 0.3% over FY17 to INR 52,040 mln mainly due to the ramp-up in the CBM operations. Domestic production for the quarter was lower at 18.4 BCFe, down 17.5% Y-o-Y whereas production in US Shale operations declined by 13.6% to 32.4 BCFe.

(INR Million)	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Segment Revenue	7,460	16,310	13,090	-54.3%	-43.0%
Segment EBIT	-6,000	-2,910	-4,860	106.2%	23.5%
EBIT Margin (%)	-80.4%	-17.8%	-37.1%	-6258 bps	-4330.1 bps
Production (BCFe)	50.8	53.2	59.8		

Source: Company, KRChoksey Research

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Organized Retail:

The performance of the retail business came as a positive surprise with revenues up 134% QoQ and with almost a 300% YoY growth in EBIT due to expansions and improved operational efficiencies. The business achieved EBIT of INR 9,510 mln for Q4FY18, a QoQ growth of 95.3%. Reliance Retail added 86 stores across various store concepts and strengthened its distribution network for consumer electronics. The business operated 3,837 stores across 750 cities with an area of over 17.7 mln sq. Ft (14.5 mln sq. Ft in Q3FY17).

(INR Million)	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Segment Revenue	2,41,830	1,87,980	1,03,320	28.6%	134.1%
Segment EBIT	9,510	4,870	2,430	95.3%	291.4%
EBIT Margin (%)	3.9%	2.6%	2.4%	134.2 bps	158.1 bps

Source: Company, KRChoksey Research

Media Business:

Turnover in Q3FY18 stood at INR 8,250 mln, 125.4% growth QoQ and 112.6% YoY, a significant rise primarily due to Network18’s subsidiary TV18 Broadcast Ltd acquiring control of the entertainment JV Viacom18. The quarter also witnessed Homestop18 ceasing to be a subsidiary due to the share-swap acquisition of ShopCJ.

(INR Million)	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Segment Revenue	8,250	3,660	3,880	125.4%	112.6%
Segment EBIT	40	570	50	-93.0%	-20.0%
EBIT Margin (%)	0.5%	15.6%	1.3%	-1508.9 bps	-80.4 bps

Source: Company, KRChoksey Research

Digital Services: The segment under its Jio brand continued to report a good set of numbers with revenues at INR 84,210 up 3.5% QoQ while the EBITDA came in at INR 26,940 mln, up 2.5% QoQ. Jio business reported a net subscriber base of 186.6 million at the end of March, a net subscriber addition of 26.5 mln. This translated into an average rate per user (ARPU) of INR 137.1 per month, which is comparable to other players in the industry.

(INR Million)	Q4FY18	Q3FY18	Q4FY17	QoQ (%)	YoY (%)
Gross Revenue	84,210	81,360	1,540	3.5%	-
Segment EBIT	14,950	14,400	-320	3.8%	-
PAT	5,100	5,040	-	1.2%	-
PBDIT Margin (%)	17.8%	17.7%	-20.8%	5.4 bps	3853.2 bps
PAT Margin (%)	6.1%	6.2%	-	-13.8 bps	-

Source: Company, KRChoksey Research

Reliance Jio Performance	Q3FY18	Q2FY18
Net Subscriber addition during the quarter (mln)	26.5	21.5
Total number of Subscribers (mln)	186.5	160.1
Average Revenue per User (INR per month)	137.1	154.0
Wireless data traffic (crores GB)	506	431
Voice Consumption (minutes per user per month)	716	694
Video Consumption (crore hours per month)	240	200

Source: Company, KRChoksey Research

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QUARTERLY PERFORMANCE – INCOME STATEMENT

(INR Millions)	Q4FY18	Q3FY18	Q4FY17	Q-o-Q (%)	Y-o-Y (%)
Revenue from operations	12,01,430	10,25,000	9,28,890	17.2%	29.3%
Cost of Materials Consumed	6,07,890	5,48,640	4,77,100	10.8%	27.4%
Purchases of Stock-in-trade	2,28,450	1,74,890	1,26,840	30.6%	80.1%
Changes in inventories of FG, WIP and SIT	-13,510	-66,330	-7,630	-79.6%	77.1%
Excise Duty & Service Tax	32,280	26,900	80,660	20.0%	-60.0%
Cost of Goods Sold (COGS)	8,55,110	6,84,100	6,76,970	25.0%	26.3%
Gross Profit	3,46,320	3,40,900	2,51,920	1.6%	37.5%
Gross Profit Margin (%)	28.8%	33.3%	27.1%	-443.3 bps	613.8 bps
Employee benefit expense	24,750	23,330	23,660	6.1%	4.6%
Other expenses	1,36,880	1,41,690	1,05,930	-3.4%	29.2%
Total Operating Expenditure	1,61,630	1,65,020	1,29,590	-2.1%	24.7%
EBITDA	1,84,690	1,75,880	1,22,330	5.0%	51.0%
EBITDA Margin (%)	15.4%	17.2%	13.2%	-178.7 bps	399 bps
Depreciation and Amortization Expense	48,520	45,300	33,540	7.1%	44.7%
EBIT	1,36,170	1,30,580	88,790	4.3%	53.4%
Finance Cost	25,660	20,950	5,560	22.5%	361.5%
Other Income	22,030	22,180	19,360	-0.7%	13.8%
Share of Profit/(Loss) of Associates & JVs	-80	390	-50	-120.5%	60.0%
Profit before Tax (PBT)	1,32,460	1,32,200	1,02,540	0.2%	29.2%
Tax Expense	37,870	37,750	22,010	0.3%	72.1%
Profit after Tax (PAT)	94,590	94,450	80,530	0.1%	17.5%
Net Profit Margin (%)	7.9%	9.2%	8.7%	-134.2 bps	54.5 bps
EPS Basic (INR)	15.93	15.98	13.63	-0.3%	16.9%

Source: Company, KRChoksey Research

INCOME STATEMENT

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operations	27,41,510	30,53,820	39,16,770	48,41,785	53,05,095
Cost of material consumed	15,82,000	17,50,870	20,74,480	24,62,849	26,92,436
Purchase of stock-in-trade	2,80,570	4,24,300	6,86,280	8,06,776	8,83,977
Changes in inventories of FG, SIT & WIP	24,180	-52,180	-86,100	0	0
Employee benefit expenses	74,260	83,880	95,230	1,01,500	1,05,621
Other expenses	3,62,940	3,84,890	5,05,120	6,48,903	7,10,996
Total Operating Expense	23,23,950	25,91,760	32,75,010	40,20,028	43,93,030
EBITDA	4,17,560	4,62,060	6,41,760	8,21,757	9,12,065
EBITDA Margin (%)	15.2%	15.1%	16.4%	17.0%	17.2%
Depreciation	1,16,110	1,16,460	1,67,060	1,71,507	1,82,924
EBIT	3,01,450	3,45,600	4,74,700	6,50,251	7,29,141
Finance Cost	36,950	38,590	80,520	1,03,391	84,875
Other Income	74,800	94,430	88,620	1,07,879	95,202
Profit before Tax (PBT) before exceptional items	3,39,300	4,01,440	4,82,800	6,54,739	7,39,467
Exceptional items	45,740	0	10,870	0	0
Profit before Tax (PBT)	3,85,040	4,01,440	4,93,670	6,54,739	7,39,467
Total Tax expense	88,700	1,02,060	1,33,460	1,87,515	2,11,781
Profit after Tax (PAT)	2,96,340	2,99,380	3,60,210	4,67,223	5,27,686
PAT Margin (%)	10.8%	9.8%	9.2%	9.6%	9.9%
EPS Basic (INR)	50.52	50.42	60.92	79.22	89.48

Source: Company, KRChoksey Research

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BALANCE SHEET

Particulars (INR Million)	FY16	FY17	FY18	FY19E	FY20E
EQUITY AND LIABILITIES					
Share capital	29,480	29,590	59,220	59,220	59,220
Reserves and surplus	22,86,080	26,07,500	28,75,840	32,93,858	37,65,971
Non controlling interest	33,560	29,170	35,390	35,390	35,390
Total Equity	23,49,120	26,66,260	29,70,450	33,88,468	38,60,581
Non-current liabilities					
Long term borrowings	14,16,470	15,21,480	14,41,750	15,41,750	14,21,750
Long term provisions	12,310	23,530	29,060	37,306	40,876
Other non-current liabilities	3,60,530	5,58,970	5,83,700	5,83,700	5,83,700
Total non-current liabilities	17,89,310	21,03,980	20,54,510	21,62,756	20,46,326
Current liabilities					
Short Term borrowings	2,35,450	3,15,280	3,74,290	5,24,290	2,74,290
Trade Payables	6,02,960	7,65,950	10,68,610	10,77,418	11,77,855
Other Current liabilities	9,95,380	12,54,230	16,83,300	19,88,563	21,78,848
Short term provisions	17,750	17,690	12,320	28,047	30,731
Total current liabilities	18,51,540	23,53,150	31,38,520	36,18,318	36,61,724
SOURCES OF FUNDS	59,89,970	71,23,390	81,63,480	91,69,542	95,68,631
ASSETS					
Non-current assets					
Property, plant & equipment	15,78,250	17,04,830	31,60,310	36,59,273	39,11,001
Other Intangible Assets	2,28,310	2,31,510	8,20,410	9,49,940	10,15,288
Capital work-in-progress	17,03,970	25,03,770	16,62,200	16,62,200	16,62,200
Intangible Assets under development	5,83,000	7,44,600	2,08,020	2,08,020	2,08,020
Goodwill on Consolidation	42,540	48,920	58,130	58,130	58,130
Non-current investments	4,15,120	2,56,390	2,52,590	2,62,694	2,73,201
Long Term Loans and Advances	20,320	27,080	26,680	42,935	47,043
Other non-current assets	1,40,610	1,38,160	1,37,280	2,19,051	2,40,011
Total non-current assets	47,12,120	56,55,260	63,25,620	70,62,242	74,14,895
Current Assets					
Inventories	4,64,860	4,89,510	6,08,370	6,88,566	7,52,754
Current Investments	4,25,030	5,72,600	5,76,030	5,76,030	5,76,030
Trade Receivables	44,650	81,770	1,75,550	1,29,645	1,42,051
Cash and cash equivalents	1,10,280	30,230	42,550	1,43,991	59,380
Short term loans & advances	8,410	9,960	23,270	28,766	31,518
Other current assets	2,24,620	2,84,060	4,12,090	5,40,302	5,92,003
Total current assets	12,77,850	14,68,130	18,37,860	21,07,300	21,53,736
APPLICATION OF FUNDS	59,89,970	71,23,390	81,63,480	91,69,542	95,68,631

Source: Company, KRChoksey Research

Reliance Industries Ltd

CASH FLOW STATEMENT

Particulars (INR Million)	FY16	FY17	FY18E	FY19E	FY20E
Operating profit before working capital changes	3,88,870	4,41,700	7,41,250	9,29,636	10,07,266
Cash Generated from (/ used in) operations	4,67,160	5,96,330	11,58,080	10,23,407	11,54,986
Less: Income Tax Paid (net of refunds)	-85,820	-1,00,830	-1,33,460	-1,87,515	-2,11,781
Net Cash generated from/(used in) operating activities	3,81,340	4,95,500	10,24,620	8,35,892	9,43,205
Net Cash Used In Investing Activities	-3,61,900	-6,62,920	-8,55,040	-8,31,854	-5,17,369
Net Cash Used in Financing Activities	-32,100	86,170	-1,39,975	97,404	-5,10,448
Net Increase/(Decrease) in Cash and Cash Equivalents	-12,660	-81,250	29,605	1,01,441	-84,612
Cash and Cash Equivalents at the beginning of the year	1,22,850	1,10,230	30,230	42,550	1,43,991
Cash and Cash Equivalents at the end of the year	1,10,230	30,230	42,550	1,43,991	59,380

Source: Company, KRChoksey Research

KEY RATIOS

Particulars	FY16	FY17	FY18	FY19E	FY20E
Profitability					
Return on Assets (%)	4.9%	4.2%	4.4%	5.1%	5.5%
Return on Capital (%)	9.4%	9.8%	11.8%	13.9%	14.8%
Return on Equity (%)	12.6%	11.2%	12.1%	13.8%	13.7%
Margin Trend					
EBITDA Margin (%)	14.2%	14.0%	14.9%	15.8%	16.0%
EBIT Margin (%)	12.8%	13.3%	13.1%	14.6%	14.5%
Net Margin (%)	10.8%	9.8%	9.2%	9.6%	9.9%
Liquidity					
Current Ratio	0.7	0.6	0.6	0.6	0.6
Quick Ratio	0.3	0.3	0.3	0.2	0.2
Debtor Days	6	10	16	10	10
Inventory Days	107	102	107	102	102
Creditor Days	139	160	188	160	160
Solvency					
Total Debt / Equity	0.7	0.7	0.6	0.6	0.4
Interest Coverage	10.2	11.4	7.0	7.3	9.7
Valuation Ratios					
EV/EBITDA	17.5	16.4	11.7	9.3	8.1
P/E	19.2	19.3	16.0	12.3	10.9
P/B	2.5	2.2	1.9	1.7	1.5

Source: Company, KRChoksey Research

Reliance Industries Ltd

Reliance Industries Ltd				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
2-May-18	972	1442	BUY	Buy	More than 15%
22-Jan-18	929	1600	BUY		
16-Oct-17	880	1200	BUY	Accumulate	5% – 15%
17-Jan-17	1041	1457	BUY		
24-Oct-16	1064	1285	BUY	Hold	0 – 5%
18-July-16	1014	1288	BUY		
25-Apr-16	1023	1288	BUY	Reduce	-5% – 0
20-Jan-16	1046	1270	BUY		
19-Oct-15	912	1225	BUY	Sell	Less than – 5%
27-July-15	1006	1059	BUY		
14-Oct-14	958	1198	BUY		

ANALYST CERTIFICATION:
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