Stock Update

Expect limited impact of decline in gasoline cracks

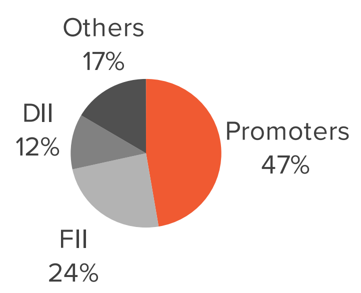
Reliance Industries

Reco: Buy | CMP: Rs1,096

Company details

Price target:	Rs1,465
Market cap:	Rs694,833 cr
52-week high/low:	Rs1329/862
NSE volume: (No of shares)	92 lakh
BSE code:	500325
NSE code:	RELIANCE
Sharekhan code:	RELIANCE
Free float: (No of shares)	334.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.3	-13.2	11.4	19.1
Relative to Sensex	0.3	-6.0	12.1	11.9

Key points

- **Sharp correction in the stock price of RIL provides a good opportunity to Buy as higher diesel cracks would largely offset fall in gasoline cracks:** The stock price of Reliance Industries Limited (RIL) has corrected by ~11% in the past three months, which we believe is primarily driven by weakness in benchmark Singapore Complex refining margin (down sharply by 20% in Q3FY2019QTD to \$4.9/bbl as compared to \$6.1/bbl in Q2FY2019). Refining margins declined on account of the 61% decline in gasoline cracks to ~\$3.2/bbl in Q3FY2019QTD from average of \$8.3/bbl in Q2FY2019. However, we see this fall in RIL's stock price as a good opportunity to Buy given our expectation of minimal impact on RIL's GRM (as compared to Singapore Complex GRM) from lower gasoline margins because of higher proportion of diesel in the overall refinery product slate. Moreover, the increase in diesel cracks by 18% to ~\$18.1/bbl in Q3FY2019QTD vs. average of \$15.4/bbl in Q2FY2019 would largely offset weakness in gasoline cracks. Hence, we maintain our Buy recommendation on RIL with unchanged price target (PT) of Rs. 1,465.
- **Outlook – Ramp-up of downstream projects to help boost refining and petchem margins; Retail and telecom businesses on strong footing:** We expect RIL's refining margins to remain strong in FY2020E as the petcoke gasification project is expected to be fully ramped up by Q4FY2019E. Moreover, implementation of IMO regulation from January 2020 is expected to further benefit refining margins of RIL. Outlook for the petrochemical segment remains positive given full benefit of Refinery Off Gas Cracker (RoGC) in FY2020E and benefit of lower feedstock cost from ethane imports. Additionally, the company's unique online-offline retailing strategy would aid business growth and margin expansion for its retail business. Moreover, robust subscriber addition, revenue market share gain and launch of broadband services would result in sustained improvement in the financials of its digital services business over the next couple of years.
- **Valuation – Maintain Buy rating with unchanged PT of Rs. 1,465:** We maintain our Buy rating on RIL with unchanged price target (PT) of Rs. 1,465, given our expectation of strong earnings CAGR of 19% over FY2018-FY2020E led by ramp-up of RoGC and petcoke gasification projects, strong double-digit earnings growth for the retail business and improvement in financials of the telecom business. At the CMP, the stock trades at 15.2x its FY2019E EPS and 13.1x its FY2020EPS.
- **Key downside risk to our rating and PT:** Substantially lower-than-expected refining and petchem margins and disappointment from the telecom business.

Valuation (Consolidated) Rs cr

Particulars	FY2017	FY2018	FY2019E	FY2020E
Net sales (Rs cr)	305,382	391,677	503,440	529,164
Growth (%)	11.5	28.3	28.5	5.1
Operating Profit (Rs cr)	46,194	64,176	82,342	93,520
OPM (%)	15.1	16.4	16.4	17.7
Adj PAT (Rs cr)	29,833	34,993	42,575	49,545
Adj. EPS (Rs)	50.4	59.1	71.9	83.7
y-o-y change (%)	17.5	17.3	21.7	16.4
PER (x)	21.7	18.5	15.2	13.1
EV/EBIDTA (x)	17.9	12.9	10.0	8.8
Dividend yield (%)	0.5	0.5	0.5	0.5
RoCE (%)	9.3	10.6	11.4	11.7
RoNW (%)	11.2	11.9	12.3	12.7

Source: Company data, Sharekhan estimates

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