

Stock Update

Largely in-line core operational performance; telecom and retail continues good show

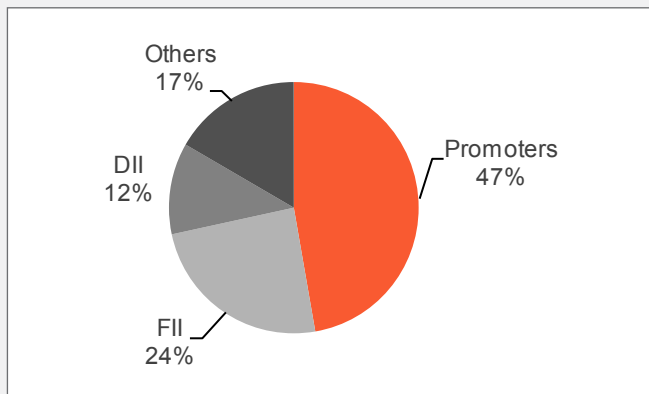
Reliance Industries

Reco: Buy | CMP: Rs1,134

Company details

Price target:	Rs1,465
Market cap:	Rs718,643 cr
52-week high/low:	Rs1329/872
NSE volume: (No of shares)	88.0 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	2.1	-2.4	5.5	23.8
Relative to Sensex	1.1	-5.7	5.0	17.1

Key points

- Marginally higher-than-expected operating profit led by slight beat in refining margin; petchem margins in-line with expectations:** Reliance Industries Limited (RIL) reported marginally higher-than-expected standalone operating profit of Rs. 14,507 crore (up 5.6% y-o-y; down 2.6% q-o-q) in Q3FY2019 on the account of slightly higher than expected GRM at \$8.8/bbl (down 24.1% y-o-y; down 7.4% q-o-q) as compared to our estimate of \$8.5/bbl. The petrochemical EBIT margin at 17.6% was in line with our estimates. RIL's GRM premium over Singapore Complex GRM widened to \$4.5/bbl in Q3FY2019 vs. \$3.4/bbl in Q2FY2019. Standalone profit after tax (PAT) of Rs. 8,928 crore (up 5.6% y-o-y; up 0.8% q-o-q) was above our estimate of Rs. 8,353 crore due to higher-than-expected other income and lower-than-expected effective income tax rate. Domestic oil and gas business continued to disappoint with a 62% y-o-y decline in natural gas production to 6.1 billion cubic feet (bcf) from KG D-6 block.
- Reliance JIO net profit up 22% q-o-q; Retail business continues robust performance:** Reliance JIO (RJIO – Digital Services business) reported EBITDA margin of 39% (EBITDA of Rs. 4,053 crore) and PAT of Rs. 831 crore in Q3FY2019, up 22% q-o-q. Average revenue per user (ARPU) remained resilient at Rs. 130 (down 1.3% q-o-q) and subscriber addition continued to remain strong with net subscriber addition of 2.8 crore in Q3FY2019 (vs. an average of 2.84 crore in last four quarters), taking the subscriber base to ~28.01 crore as on December 31, 2018. The retail business continued to witness strong traction with 89.3% y-o-y and 177.2% y-o-y growth in revenue and EBITDA, respectively, in Q3FY2019 led by festive season and opening of new stores.
- Outlook – IMO regulations to boost refining margin although weakness to persist in near term; high petchem margin to sustain on low feedstock cost:** We expect the weakness in the refining margin to persist in the near term due to lower gasoline cracks but likelihood of rebound in GRM is strong with implementation of IMO regulation from January 2020 and likely strengthening of the diesel cracks. Moreover, the gradual ramp-up of the petcoke gasification project would provide boost to the refining margin in FY2020E. With the benefit of feedstock cost (lower naphtha as well as gas price on account of recent correction in the oil price), we remain optimistic about high petrochemical margins being sustained in near to medium

term. The consumer centric businesses of RIL like retail and digital services are expected to witness strong business traction as the company plans to launch array of new services (like fixed-line broadband, cable TV and payment bank for digital business), which would create long term value for RIL.

- ♦ **Valuation – Maintain Buy rating with unchanged PT of Rs. 1,465:** We have lowered our FY2019E EPS to factor in the weakness in

refining margins (due to lower gasoline cracks) but largely maintain our FY2020E EPS. We have also introduced our FY2021E EPS of Rs88.8. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 1,465 as we believe that likely strong subscriber additions in telecom business, sustained high growth in retail business and boost to refining margin from IMO regulations would act as key catalyst for the stock. At the CMP, the stock is trading at 13.5x its FY2020E EPS and 12.8x its FY2021E EPS.

Results (Standalone)

Particulars	Rs cr				
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net sales	100,096	73,256	36.6	96,167	4.1
Total expenditure	85,589	59,512	43.8	81,275	5.3
RM consumed	65,465	51,767	26.5	74,808	(12.5)
Stock adjustment	6,628	(3,162)	(309.6)	(5,742)	(215.4)
Purchase of FG	2,700	1,112	142.8	1,732	55.9
Staff expenses	1,456	1,142	27.5	1,493	(2.5)
Other expenses	9,340	8,653	7.9	8,984	4.0
Operating profit	14,507	13,744	5.6	14,892	(2.6)
Other income	2,456	1,624	51.2	2,012	22.1
EBITDA	16,963	15,368	10.4	16,904	0.3
Interest	2,405	1,094	119.8	2,417	(0.5)
Depreciation	2,586	2,475	4.5	2,745	(5.8)
PBT	11,972	11,799	1.5	11,742	2.0
Exceptional item					
Tax	3,044	3,345	(9.0)	2,883	5.6
PAT	8,928	8,454	5.6	8,859	0.8
Extraordinary items					
Reported PAT	8,928	8,454	5.6	8,859	0.8
EPS	14.1	13.3	5.5	14.0	0.8
			BPS		BPS
OPM %	14.5	18.8	(427)	15.5	(99)
PATM %	8.9	11.5	(262)	9.2	(29)
Tax rate %	25.4	28.3	(292)	24.6	87

Source: Company data

Segment-wise performance (Consolidated)

Particulars	Rs cr				
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Gross Revenue					
Petrochemicals	46,246	33,726	37.1	43,745	5.7
Refining	111,738	75,865	47.3	98,760	13.1
Oil& gas	1,182	1,631	(27.5)	1,322	(10.6)
Organized Retail	35,577	18,798	89.3	32,436	9.7
Digital Service	12,302	8,136	51.2	10,942	12.4
Others	5,707	3,026	88.6	5,537	3.1
Total Gross Revenue	212,752	141,182	50.7	192,742	10.4
Less: Segment Transfer	41,416	31,277	32.4	36,451	13.6
Turn over	171,336	109,905	55.9	156,291	9.6
Less: excise duty	14,939	10,095	48.0	12,968	15.2
Net sales	156,397	99,810	56.7	143,323	9.1
EBIT					
Petrochemicals	8,221	5,753	42.9	8,120	1.2
Refining	5,055	6,165	(18.0)	5,322	(5.0)
Oil& gas	(185)	(291)	(36.4)	(480)	(61.5)
Organized Retail	1,512	487	210.5	1,244	21.5
Digital Service	2,362	1,440	64.0	2,042	15.7
Others	376	276	36.2	314	19.7
Total EBIT	17,341	13,830	25.4	16,562	4.7
EBIT Margins (%)			YoY bps		QoQ bps
Petrochemicals	17.8	17.1	72	18.6	(79)
Refining	4.5	8.1	(360)	5.4	(86)
Oil& gas	(15.7)	(17.8)	219	(36.3)	2,066
Organized Retail	4.2	2.6	166	3.8	41
Digital Service	19.2	17.7	150	18.7	54
Others	6.6	9.1	(253)	5.7	92
Total EBIT Margin	8.2	9.8	(165)	8.6	(44)

Source: Company data

Consolidated Q3FY2019 results snapshot

Particulars	Rs cr				
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Net sales	156,397	99,810	56.7	143,323	9.1
Total expenditure	135,080	82,230	64.3	122,215	10.5
Raw material consumed	68,204	54,864	24.3	76,686	(11.1)
Stock adjustment	7,342	(6,633)	(210.7)	(5,576)	(231.7)
Purchase of finished goods	35,813	17,489	104.8	29,369	21.9
Employee expenses	3,265	2,333	39.9	2,927	11.5
Other expenses	20,456	14,177	44.3	18,809	8.8
Operating profit	21,317	17,580	21.3	21,108	1.0
Other income	2,460	2,218	10.9	1,250	96.8
EBITDA	23,777	19,798	20.1	22,358	6.3
Interest	4,119	2,095	96.6	3,932	4.8
Depreciation	5,237	4,530	15.6	5,229	0.2
PBT	14,421	13,173	9.5	13,197	9.3
Exceptional item					
Tax	4,069	3,775	7.8	3,649	11.5
PAT	10,352	9,398	10.2	9,548	8.4
To associates & Minority interest	24	39	(38.5)	1	2,300.0
Extraordinary items				-	
Reported PAT	10,376	9,437	10.0	9,549	8.7
Adjusted PAT	10,376	9,437	10.0	9,549	8.7
EPS	17.5	15.9	10.0	16.1	8.7
			BPS		BPS
OPM%	13.6	17.6	(398)	14.7	(110)
PATM%	6.6	9.5	(282)	6.7	(3)
Tax rate %	28.2	28.7	(44)	27.7	57

Source: Company data

Valuation (Consolidated)

Particulars	Rs cr				
	FY2017	FY2018	FY2019E	FY2020E	FY2021E
Net sales	305,382	391,677	501,763	529,164	553,605
Growth (%)	11.5	28.3	28.1	5.5	4.6
Operating Profit	46,194	64,176	80,222	93,520	101,358
OPM (%)	15.1	16.4	16.0	17.7	18.3
Adj PAT	29,833	34,993	40,934	49,545	52,569
Adj. EPS (Rs)	50.4	59.1	69.2	83.7	88.8
y-o-y change (%)	17.5	17.3	17.0	21.0	6.1
PER (x)	22.5	19.2	16.4	13.5	12.8
EV/EBIDTA (x)	18.3	13.2	10.6	9.1	8.4
Dividend yield (%)	0.5	0.5	0.5	0.5	0.5
RoCE (%)	9.3	10.6	11.1	11.7	11.1
RoNW (%)	11.2	11.9	11.9	12.8	12.0

Source: Company data, Sharekhan estimates

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