

STRONG BUY*

April 21, 2019

Reliance Industries Ltd.



Retail and Jio outperforms, ARPU declines and GRM witnessed pressure

Refining & Marketing segment impacted owing to lower volumes, GRM's at record low

The company's R&M revenue declined by 6.1% y-o-y & 21.4% q-o-q to INR 878440 million in Q4FY19. The segment performance was impacted by lower crude throughput due to planned maintenance. EBIT declined by 25.5% y-o-y & 17.4% q-o-q to INR 41760 million. EBIT margins stood at 4.8% in Q4FY19 as compared to 6.0% in Q4FY18 and 4.5% in Q3FY19, registering decline of 120 bps Y-o-Y & marginally improvement of 23 bps Q-o-Q. This decline was owing to volatile crude prices, multi-year low gasoline and naphtha cracks. GRM witnessed steepest decline in Q4FY19 registering decline of 25.5% y-o-y and 6.8% q-o-q to \$ 8.2 per barrel. The weak light and middle distillate product cracks impacted GRM still outperforming Singapore complex margins by \$ 5.0 per barrel.

Petchem business posted a strong show in Q4FY19, margins improved owing to strong volumes and realizations

The petrochemicals business revenue grew by 11.3% y-o-y & declined by 7.0% q-o-q to INR 424140 million in Q4FY19. This strong growth in revenues was due to higher volumes and prices which reflected full benefits of ROGC and Paraxylene capacity expansion projects. The company's EBIT grew by 23.9% y-o-y & declined by 3.0% q-o-q to INR 79750 million. EBIT margins stood at 18.8% in Q4FY19 as compared to 16.9% in Q4FY18 & 18.0% in Q3FY19. Margin improvement was led by increase in prices of Paraxylene and downstream polyesters. Strong integrated polyester chain margins offset weakness across the polymer chain which was impacted by incremental supplies from new US crackers.

Retail business recorded another quarter of strong growth on the back of store addition

The retail business revenue grew by 51.6% y-o-y & 3.1% q-o-q to INR 366630 million in Q4FY19. The strong growth is attributable to accelerated store expansion, strong value proposition and focus on customer experience across all consumption baskets. The company's EBIT grew by 81.0% y-o-y & 13.8% q-o-q to INR 17210 million. EBIT margins stood at 4.7% in Q4FY19 as compared to 3.9% in Q4FY18 & 4.2% in Q3FY19. The margin improvement is attributable to new store openings and availability of varied brands led to improved visibility across retail stores. The company added 510 stores in Q4FY19 which led to strong growth in revenues. Reliance Retail now operates 10,415 stores covering over 22 million sq. ft. of retail space

JIO business ARPU disappoints, however, profits expectation are in line

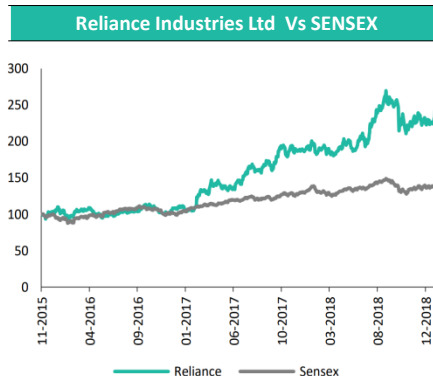
The digital business revenue grew 61.6% y-o-y & 10.6% q-o-q to INR 136090 million in Q4FY19. The company EBIT grew by 78.3% y-o-y & 12.8% q-o-q to INR 26650 million. EBIT margins stood at 19.6% in Q4FY19 as compared to 17.8% in Q4FY18 & 19.2% in Q3FY19. Subscriber base for Q4FY19 stood at 306.7 million as compared to 186.6 million in Q4FY18, thereby, registering a growth of 64.4% on y-o-y basis. Gross addition of 33.2 million and net adds of 26.6 million subscribers in Q4FY19. ARPU In Q4FY19 stood at INR 126.2/subscriber per month as compared to INR 130 in Q3FY19. Continually declining ARPU is a cause of concern, the inherent growth over the last few quarters has on the back of net subscriber addition. We believe ARPU to start inching up when the net subscriber addition base will stabilize. The tower/ fiber demerger completed with effect from 31st March 2019.

Valuations

We value the company using SOTP valuation, thereby, valuing refining & petchem business at 7.0x FY21E EBITDA & telecom at 7.0x FY21E EBITDA to arrive at a target price of INR 1638/share indicating 18.2% upside. We strongly recommend to add the stock on dips with an investment horizon of 1 year.

Stock Details	
Industry	Oil & Gas
Sensex	39140
Nifty	11753
Bloomberg Code	RIL:IN
Eq. Cap. (INR Millions)	59220
Face Value (INR)	10
52-w H/L	1406/906
Market Cap (INR Millions)	8765858.1

	Valuation Data		
	FY19	FY20E	FY21E
EV/EBITDA (x)	12.9	10.3	10.1
P/E (x)	20.6	18.5	15.0



	Shareholding Pattern (in %)		
	Mar'19	Dec'18	Mar'18
Promoters	47.27	47.19	47.45
FIIs	24.39	24.02	24.46
DIIs	11.86	12.47	11.38
Retail	16.48	16.32	16.71
Total	100.0	100.0	100.0

Particulars (INR Mn)	FY18	FY19	FY20E	FY21E
Revenue from Operations	39,16,770	56,71,350	68,17,768	73,40,346
EBITDA	6,41,760	8,39,180	9,29,125	10,10,984
PAT	3,60,800	3,98,370	4,44,055	5,46,389
EPS Diluted (Rs.)	60.93	67.27	74.98	92.26
OPM	16.4%	14.8%	13.6%	13.8%
NPM	9.2%	7.0%	6.5%	7.4%
P/E (x)	19.4	20.6	18.5	15.0

Source: NSPL Research

* Read last page for disclaimer & rating rationale



Q4FY19 Result Analysis

(INR Mn)	Q4FY19	Q3FY19	Q4FY18	Y-o-Y	Q-o-Q
Revenue (Net of excise duty)	1386590	1563970	1169150	18.6%	-11.3%
COGS	926480	1113590	822830	12.6%	-16.8%
Employee Expenses	33450	32650	24750	35.2%	2.5%
Other Expenses	218340	204560	136800	59.6%	6.7%
Total Expenses	1178270	1350800	984380	19.7%	-12.8%
EBITDA	208320	213170	184770	12.7%	-2.3%
Depreciation	52950	52370	48520	9.1%	1.1%
Other Income	31470	24600	22030	42.9%	27.9%
EBIT	186840	185400	158280	18.0%	0.8%
Finance Cost	48950	41190	25660	90.8%	18.8%
Share of associates	680	240	-80	-950.0%	183.3%
PBT (after exceptional item)	138570	144450	132540	4.5%	-4.1%
Taxes	34300	40690	37870	-9.4%	-15.7%
Net Profit	104270	103760	94670	10.1%	0.5%
EPS in INR	17.49	17.3	15.94	9.7%	1.1%

- The company's net sales grew 18.6% y-o-y and declined by 11.3% q-o-q to INR 1386590 million in Q4FY19.
- EBITDA grew by 12.7% y-o-y and declined by 2.3% q-o-q to INR 208320 million in Q4FY19. EBITDA Margins stood at 15.0% in Q4FY19 as against 15.8% in Q4FY18 and 13.6% in Q3FY19.
- Employee expense grew by 35.2% y-o-y to INR 33450 million owing to expansion of petrochemical unit, newly installed ROGC refinery and increase in retail branches.
- Finance cost grew by 90.8% y-o-y & 18.8% q-o-q to INR 48950 million in Q4FY19.
- PBT grew by 4.5% y-o-y & declined by 4.1% q-o-q to INR 138570 million in Q4FY19.
- Reported PAT grew 10.1% y-o-y and marginally by 0.5% q-o-q to INR 104270 million in Q4FY19. PAT margins stood at 7.5% in Q4FY19 as compared to 8.1% in Q4FY18 and 6.6% in Q3FY19.

	Q4FY19	Q3FY19	Q4FY18
Top-line contribution share			
Petrochemicals	22%	22%	23%
Refining & Marketing	46%	53%	56%
Oil & Gas	1%	1%	0%
Retail	19%	17%	14%
Digital services	7%	6%	5%
Others	4%	3%	2%
Total	100%	100%	100%
Bottom-line contribution share			
Petrochemicals	49%	47%	44%
Refining & Marketing	25%	29%	38%
Oil & Gas	-2%	-1%	-4%
Retail	10%	9%	6%
Digital services	16%	14%	10%
Others	1%	2%	6%
Total	100%	100%	100%

Source: Company, NSPL Research



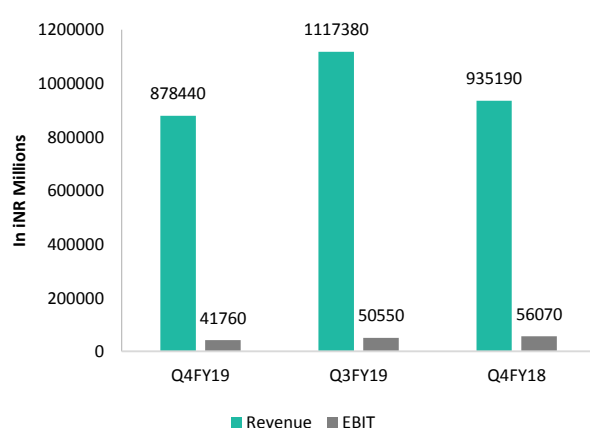
Refining & Marketing business

(INR Mn)	Q4FY19	Q3FY19	Q4FY18	Y-o-Y	Q-o-Q
Revenue	878440	1117380	935190	-6.1%	-21.4%
EBIT	41760	50550	56070	-25.5%	-17.4%
EBIT margins	4.75%	4.52%	6.00%		
Crude Refined (MMT)	16	18	16.7	-4.2%	-11.1%
GRM (\$ per barrel)	8.2	8.8	11	-25.5%	-6.8%

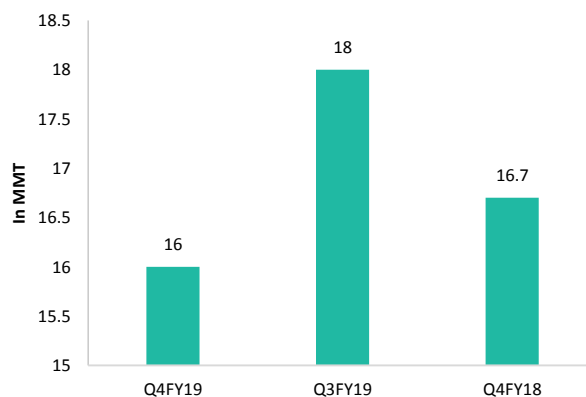
Source: Company, NSPL Research

- The company's R&M revenue de-grew by 6.1% Y-o-Y & 21.4% Q-o-Q to INR 878440 million.
- EBIT declined by -25.5% Y-o-Y & 17.4% Q-o-Q to INR 41760 million.
- EBIT margins stood at 4.75% in Q4FY19 as compared to 4.52% in Q3FY19 and 6.0% in Q4FY18. This decline was owing to GRM's witnessing huge pressure. However, with pet coke gasification unit to coming on-stream we expect it would give a boost to GRM by \$ 1.2-1.3/bbl.
- GRM for Q4FY19 stood at \$ 8.2/bbl, outperforming Singapore complex margins by \$ 5.0/bbl.
- During Q3FY19, the company's Jamnagar refineries processed 16.0 MMT of crude. The average refinery utilization rates globally in Q4FY19 were 85.5% in North America, 83.4% in Europe and 88.9% in Asia. US refinery utilization declined Q-o-Q due to higher maintenance shutdowns in line with seasonal trends.
- Reliance exports of refined products from India stood at \$ 5.4 billion during Q4FY19 as compared to \$ 6.3 billion in Q4FY18. In terms of volume, exports of refined products were 9.1 MMT during Q4FY19 as compared to 10.7 MMT in Q4FY18.
- During Q4FY19, the benchmark Singapore complex margin averaged \$ 3.2 /bbl as compared to \$ 4.3 /bbl in Q3FY19 and \$ 7.0 /bbl in Q4FY18.
- Singapore gasoline cracks averaged \$ 3.7 /bbl during Q4FY19 as against \$ 4.7 /bbl in Q3FY19 and \$ 13.7 /bbl in Q4FY18. Gasoline cracks dropped Q-o-Q because of high on-shore Singapore inventory levels with low seasonal demand in North America during winter. Refinery maintenance in North America and the lead up to the Northern Hemisphere's summer driving season helped recovery in gasoline cracks towards end of quarter

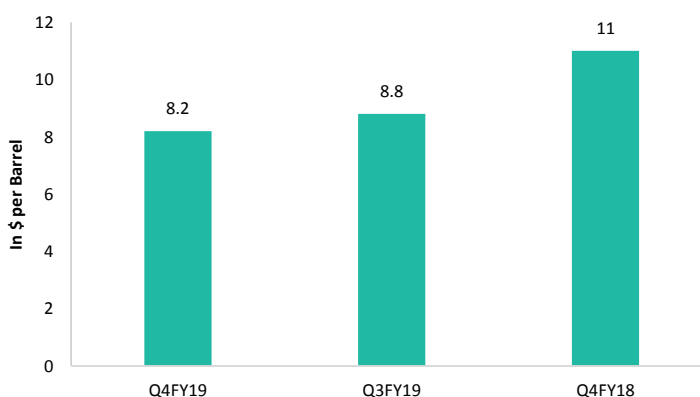
Revenue & EBIT performance



Production performance



GRM witnessing continuous decline



Source: Company, NSPL Research



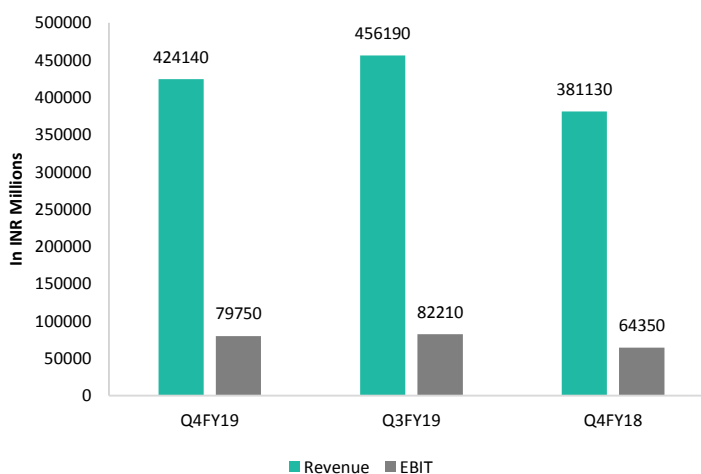
Petrochemicals Business

(INR Mn)	Q4FY19	Q3FY19	Q4FY18	Y-o-Y	Q-o-Q
Revenue	424140	456190	381130	11.3%	-7.0%
EBIT	79750	82210	64350	23.9%	-3.0%
EBIT margins	18.8%	18.0%	16.9%		
Production (MMT)	9.4	9.7	9.2	2.2%	-3.1%

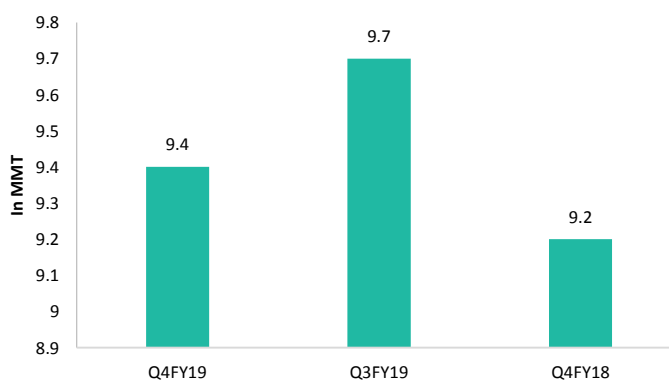
Source: Company, NSPL Research

- The petrochemicals business revenue grew by 11.3% Y-o-Y & declined 7.0% Q-o-Q to INR 424140 million. Volumes grew by 2.2% Y-o-Y & de-grew 3.1% Q-o-Q to 9.4 MMT in Q4FY19.
- The company’s EBIT grew by 23.9% Y-o-Y & de-grew 3.0% Q-o-Q to INR 79750 million. EBITDA margin improved led by PX and downstream polyester margins
- EBIT margins stood at 18.8% in Q4FY19 as compared to 18.0% in Q3FY19 & 16.9% in Q4FY18.
- During 4Q FY19, Fibre intermediate markets witnessed mixed trends with diverging market fundamentals. Though PX 4Q FY19 prices decreased 5% Q-o-Q, margins remained healthy at \$546/MT. PTA 4Q FY19 prices were down by 8% Q-o-Q amidst sluggish downstream demand and liquidity tightness.
- Polyester producers maintained stable to soft prices in a falling feedstock price environment, resulting in higher margins. PFY 4Q FY19 prices decreased 6% Q-o-Q while margins improved 15% Q-o-Q to \$ 239/MT. PSF 4Q FY19 prices decreased 4% Q-o-Q while margins improved sharply by 43% to \$ 188/MT.

Revenue & EBIT of Petrochemicals business



Production performance





(INR Mn)	2018	2019	2020E	2021E
Net Turnover	3916770	5671350	6817768	7340346
(Increase)/decrease in stock in trade	-86100	-46800	318477	344590
Consumption of rm	2074480	2752370	2992183	3201090
Purchases	686280	1239300	1553476	1680849
Staff costs	95230	124880	137179	142749
Other expenditure	505120	762420	887329	960083
Total	3275010	4832170	5888643	6329361
EBITDA	641760	839180	929125	1010984
EBITDA Margin (%)	16.4%	14.8%	13.6%	13.8%
Other Income	88620	86350	59525	64405
Depreciation	167060	209340	249004	269421
EBIT	563320	716190	739646	805969
EBIT Margin (%)	13.1%	11.5%	10.0%	10.1%
Interest and finance charges	80520	164950	126532	131081
Profit before tax	482800	551240	613114	674888
Exceptional item	10870	0	0	0
PBT after exceptional item	493670	551240	613114	674888
Tax Expense	133460	153900	169527	128855
Net Profit	360210	397340	443586	546032
NPM Margin (%)	9.2%	7.0%	6.5%	7.4%
Share of profit /(loss)of associates & JVs	590	1030	468	355
Net profit after minority	360800	398370	444054	546389
EPS	60.9	67.3	75.0	92.3

Source: NSPL Research



(INR Million)	2018A	2019E	2020E	2021E
EQUITY AND LIABILITIES				
Shareholders' Funds				
Share Capital	59,220	59,260	59,260	59,260
Reserves and Surplus	28,75,840	38,11,860	42,12,433	47,05,318
Minority Interest	35,390	82,800	82,800	82,800
Total Equity	29,70,450	39,53,920	43,54,493	48,47,378
Non-Current Liabilities				
Long Term Borrowings	14,41,750	20,75,060	16,31,750	16,76,750
Deferred Payment Liabilities	2,02,100	1,88,390	3,51,788	3,78,752
Deferred Tax Liability (net)	2,96,180	4,99,230	4,99,230	4,99,230
Other Financial Liabilities – LT	85,420	1,00,200	1,48,687	1,60,084
Other Non-Current Liabilities		5,480		
Long Term Provisions	29,060	28,560	50,584	54,461
Total Non-Current Liabilities	20,54,510	28,96,920	26,82,038	27,69,277
Current Liabilities				
Short Term Borrowings	3,74,290	6,44,360	4,54,290	4,84,290
Trade Payables	10,68,610	10,83,090	17,74,488	19,10,501
Other Current Liabilities	4,31,790	5,29,010	5,45,421	5,87,228
Short Term Provisions	12,320	13,260	21,445	23,089
Other Financial Liabilities	12,51,510	8,70,510	20,45,330	22,02,104
Total Current Liabilities	31,38,520	31,40,230	48,40,974	52,07,211
Liabilities directly associated with Assets held for Sale		32,990		
Total Liability	51,93,030	60,70,140	75,23,013	79,76,488
TOTAL EQUITY & LIABILITY	81,63,480	100,24,060	118,77,505	128,23,866
ASSETS				
Fixed Assets				
Tangible Assets	31,60,310	30,21,150	49,00,274	57,33,943
Intangible Assets	8,20,410	8,42,620	12,72,101	13,19,623
Capital Work-in-Progress	16,62,200	15,01,780	4,70,220	1,70,220
Intangible Assets under Development	2,08,020	2,92,850	2,92,850	2,92,850
Goodwill on Consolidation	58,130	1,19,970	1,19,970	1,19,970
Non-Current Investments	2,52,590	16,45,490	6,13,599	6,60,631
Long Term Loans and Advances	26,680	68,130	46,441	50,000
Other Non-Current Assets	1,37,280	2,24,520	2,38,958	2,57,274
Total Non-Current Assets	63,25,620	77,16,510	79,54,414	86,04,511
Current Assets				
Current Investments	5,76,030	7,09,390	10,02,673	10,79,527
Inventories	6,08,370	6,75,610	10,64,693	11,46,301
Trade Receivables	1,75,550	3,00,890	2,98,861	3,21,769
Cash and Bank Balances	42,550	75,120	7,28,037	7,79,401
Short Term Loans and Advances	23,270	5,450	68,178	73,403
Other Current Assets	3,27,610	3,68,040	6,13,599	6,60,631
Other Financial Assets – ST	84,480	1,26,380	1,47,051	1,58,322
Total Current Assets	18,37,860	22,60,880	39,23,092	35,68,743
Assets held for sale		46,670		
TOTAL ASSETS	81,63,480	100,24,060	118,77,505	128,23,866

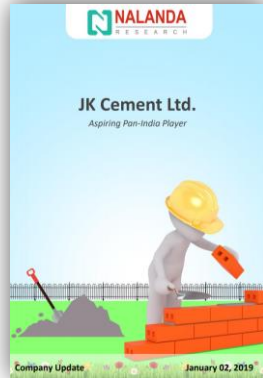
Particulars	FY18	FY19	FY20E	FY21E
Profitability				
Return on Assets (%)	4.4%	4.0%	3.7%	4.7%
Return on Capital (%)	11.8%	10.7%	11.5%	11.5%
Return on Equity (%)	12.1%	10.1%	10.2%	11.3%
Margin Trend				
EBITDA Margin (%)	16.4%	14.8%	13.6%	13.8%
EBIT Margin (%)	13.1%	11.5%	10.0%	10.1%
Net Margin (%)	9.2%	7.0%	6.5%	7.4%
Liquidity				
Current Ratio	0.6	0.7	0.8	0.7
Quick Ratio	0.1	0.1	0.2	0.1
Debtor Days	16	16	16	16
Inventory Days	57	57	57	57
Creditor Days	100	95	95	95
Solvency				
Total Debt / Equity	0.6	0.7	0.5	0.4
Interest Coverage	7.0	4.3	5.8	6.1
Valuation Ratios				
EV/EBITDA	13.7	12.9	10.3	10.1
P/E	19.4	20.6	18.5	15.0
P/B	2.4	2.1	1.9	1.7

Source: NSPL Research

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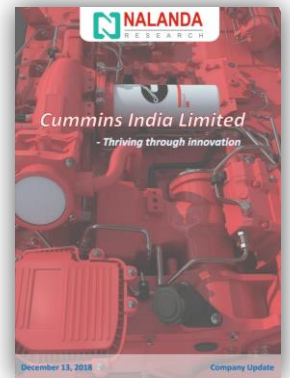
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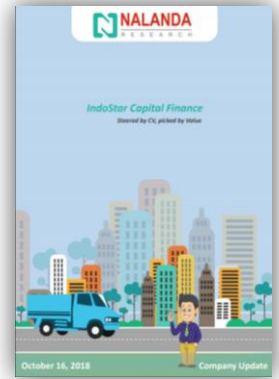
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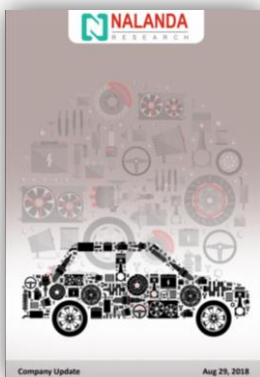
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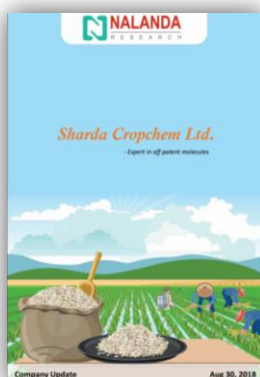
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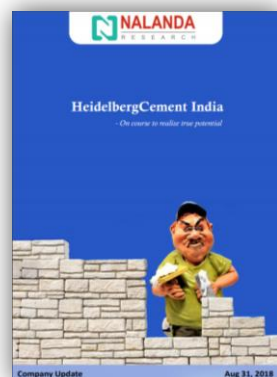
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Reliance Industries Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
April 21, 2019	1386	1638	Strong Buy	Buy	5% - 15%
January 21, 2018	1184	1475	Strong Buy	Hold	0 - 5%
October 22, 2018	1101	1434	Strong Buy	Reduce	-5% - 0
July 30, 2018	1129	1327	Strong Buy	Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
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Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO