Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Reliance Industries Ltd

Decent Q3, oil & gas/retail perform well

Oil & Gas	Sharekhan code: RELIANCE

Reco/View: Buy	↔	CMP: Rs. 2,735	Price Target: Rs. 3,130	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

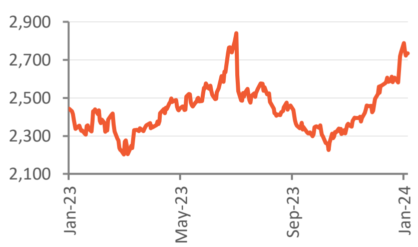
Company details

Market cap:	Rs. 18,50,449 cr
52-week high/low:	Rs. 2,793 / 2,012
NSE volume: (No of shares)	63.8 lakh
BSE code:	500325
NSE code:	RELIANCE
Free float: (No of shares)	336.5 cr

Shareholding (%)

Promoters	50.3
FII	22.1
DII	16.6
Others	11.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.2	19.0	4.4	12.0
Relative to Sensex	6.5	9.3	-1.7	-6.3

Sharekhan Research, Bloomberg

Summary

- Q3FY24 consolidated EBITDA of Rs.40,656 crore (down 0.8% q-o-q) beat our estimate by 2% primarily led by EBITDA beat across standalone, retail and Jio.
- Oil & gas segment's EBITDA was up 21% q-o-q led by higher gas production while that of O2C declined by 21% q-o-q to Rs. 11,069 crore. Retail sustained growth momentum with 8% q-o-q revenue growth/ stable margin of 8.1% and thus retail EBITDA grew by 8% q-o-q to Rs. 6,061 crore. Jio EBITDA up 3% q-o-q but flat ARPU of Rs. 181.7, disappointed.
- Strong growth in retail given store expansion, potential telecom tariff hike/5G adoption and relatively stable O2C business (along with likely recovery in petchem) to drive earnings growth (expect 15%/14% EBITDA/PAT CAGR over FY23-26E) for RIL. New Energy Giga Complex to be commissioned in H2CY24 and would drive long-term growth.
- We firmly believe that RIL is a compelling long-term investment bet given strong prospects across businesses and potential value unlocking from retail, digital services, and financial services portfolio would create long-term value for shareholders. We maintain a Buy with a revised SoTP-based PT of Rs. 3,130. At CMP, the stock trades at 19x its FY26E EPS and 9.2x its FY26E EV/EBITDA.

Reliance Industries Limited (RIL) posted good Q3FY24 results with better-than-expected earnings across standalone, retail and Jio. Its consolidated EBITDA of Rs. 40,656 crore (up 16% y-o-y; down 0.8% q-o-q) was 2% above our estimate of Rs. 39,997 crore. Resilient standalone performance with EBITDA of Rs. 17,558 crore (up 18% y-o-y; down 8.5% q-o-q) was driven by robust EBITDA growth of 52%/21% y-o-y/q-o-q from oil & gas segment to Rs. 5,778 crore, led by higher gas production (up 72%/6% y-o-y/q-o-q to 72 bcfe) and benefit of operating leverage while O2C EBITDA declined sharply, by 21% q-o-q to Rs. 11,069 crore due to planned maintenance shutdown and weak margin environment. Retail business continued its strong growth momentum with 8% q-o-q revenue growth and a stable margin of 8.1% and thus retail EBITDA grew by 8% q-o-q to Rs. 6,061 crore (2% above our estimate). Jio Platforms performance was aided by strength in subscriber addition of 11.2 million and resilient EBITDA margin of 50.4% although ARPU disappointed as it remained flat q-o-q at Rs. 181.7. Jio Platforms EBITDA grew by 3% q-o-q to Rs. 13,955 crore. The consolidated PAT at Rs. 17,265 crore (up 9.3% y-o-y; down just 0.7% q-o-q) was 5% above our estimate of Rs. 16,470 crore led by strong performance across businesses and marginally lower tax rate of 24.6%.

Key positives

- Strong retail EBITDA growth of 8% q-o-q.
- Record oil & gas EBITDA of Rs. 5778 crore, up 52% y-o-y led by higher gas production.
- Continued robust Jio net subscriber addition of 11.2 million q-o-q for Jio.

Key negatives

- Miss in ARPU at Rs. 181.7 (flat q-o-q).

Management Commentary

- **Jio –** True 5G network rolled out across India ahead of schedule. ~90 million subscribers have migrated to Jio's 5G network.
- **Retail business –** Added 252 new stores and thus taking total store count to 18,774 as of December-23. Total store area increased to 72.9 million sq. ft. (versus 71.5 million sq. ft in Q2FY24).
- **O2C/E&P –** Jet fuel cracks to hold strong on healthy demand growth and gasoil cracks to remain firm given strength in jet fuel demand and limited availability of heavy crude. Successfully placed ~30 mmscmd of KG-D6 gas across sectors.
- Capex has moderated with completion of pan-India 5G rollout.
- **Other updates –** 1) Net debt marginally increased by 1% q-o-q to Rs. 119,372 crore, 2) Q3FY24/9MFY24 capital expenditure was at Rs. 30,102 crore/Rs. 108,562 crore versus Rs. 37,599 crore/Rs. 101,575 crore in Q3FY23/9MFY23.

Revision in estimates – We have lowered our FY24 earnings estimate to factor lower margin in O2C business and slightly lower ARPU assumption. We maintain our FY25/FY26 earnings estimate.

Our Call

Valuation – Maintain Buy on RIL with a revised SoTP-based PT of Rs. 3,130: We expect continued strong earnings traction in its consumer-centric business – Jio (likely further telecom tariff hikes, 5G rollout and ramp-up of home broadband) and retail (high growth in retail, led by market share gain and new commerce). We firmly believe that it is compelling long term investment bet given strong prospects across business and potential value unlocking from retail, digital services, and financial services portfolio would add to shareholders' returns over the coming years. Hence, we maintain a Buy on RIL with a revised SoTP-based price target (PT) of Rs. 3,130 (increase in PT reflects rollover of valuation multiple to FY26 earnings estimates). At CMP, the stock trades at 20x/19x its FY25E/FY26E EPS and 10x/9.2x its FY25E/FY26E EV/EBITDA.

Key Risks

1) A lower-than-expected refining and petrochemical margins in case global capacity additions surpass incremental demand; 2) slower-than-expected subscriber additions and ramp-up of broadband services; and 3) A slowdown in the retail business could affect earnings and valuations.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY24E	FY26E
Revenue	7,04,962	8,79,468	9,04,499	9,79,767	10,65,914
OPM (%)	15.7	16.2	18.6	20.1	20.3
Adjusted PAT	57,869	66,702	74,923	90,836	98,416
Adjusted EPS (Rs.)	85.5	98.6	110.8	134.3	145.5
P/E (x)	32.0	27.7	24.7	20.4	18.8
EV/EBIDTA (x)	17.9	13.8	11.8	10.0	9.2
RoCE (%)	8.3	8.6	9.6	10.1	9.9
RoNW (%)	7.4	8.1	7.9	8.2	7.6

Source: Company; Sharekhan estimates

Good Q3; oil & gas and retail biz post strong performance

In Q3FY24, RIL clocked better than expected earnings across standalone, retail and Jio. Its consolidated EBITDA of Rs. 40,656 crore (up 16% y-o-y; down 0.8% q-o-q) was 2% above our estimate of Rs. 39,997 crore. Resilient standalone performance with EBITDA of Rs. 17,558 crore (up 18% y-o-y; down 8.5% q-o-q) was driven by robust EBITDA growth of 52%/21% y-o-y/q-o-q from oil & gas segment to Rs. 5778 crore, led by higher gas production (up 72%/6% y-o-y/q-o-q to 72 bcfe) and benefit of operating leverage, while O2C EBITDA declined sharply, by 21% q-o-q to Rs. 11069 crore. Retail business continues with strong growth momentum with 8% q-o-q revenue growth and stable EBITDA margins of 8.1% and thus retail EBITDA grew by 8% q-o-q to Rs. 6061 crore (2% above our estimate). Jio Platforms performance was aided by strength in subscriber addition of 11.2 million and resilient EBITDA margin of 50.4% although ARPU disappointed as it remained flat q-o-q at Rs. 181.7. Jio Platforms EBITDA grew by 3% q-o-q to Rs. 13,955 crore. Consolidated PAT at Rs. 17,265 crore (up 9.3% y-o-y; down just 0.7% q-o-q) was 5% above our estimate of Rs. 16,470 crore led by strong performance across businesses and marginally lower tax rate of 24.6%.

Retail business – Strong revenue growth sustains; margin stable q-o-q

RIL's retail business posted strong revenue growth of 24%/8% y-o-y/q-o-q to Rs. 74,373 crore (2% above our estimate) and EBITDA margin remained stable q-o-q at 8.1% (in-line) in Q3FY24. As a result, EBITDA (excluding investment income) grew by 8.1% q-o-q to Rs. 6,061 crore in Q3FY24. The robust revenue growth reflects broad based growth across categories (Grocery +41%, Fashion & Lifestyle +28%, Consumer Electronics +19% y-o-y) and was also supported by festive season. Store footfalls/registered customer base/number of transactions grew by 40%/25%/20% y-o-y to 282 million/293 million/320 million. PAT grew by 32%/13% y-o-y/q-o-q to Rs. 3,165 crore.

Other highlights

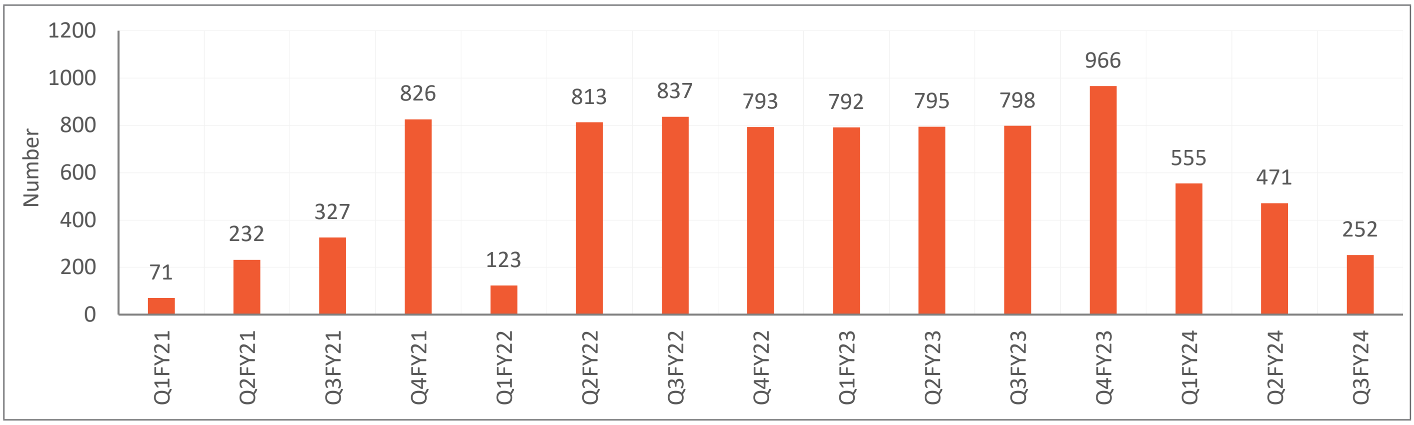
- Retail segment added 252 new stores, thus taking the total store count to 18,774 as on December 31, 2023.
- Reliance Retail has retail space of 72.9 million sq. ft. in Q3FY24 versus 71.5 million sq. ft. in Q2FY24.
- Digital Commerce and New Commerce businesses contributed 19% of revenues in Q3FY24.

Retail business – Key Financials Rs cr

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenue from Operations	51,582	57,694	60,096	61,559	62,159	68,937	74,373
EBITDA (including investment income)	3,837	4,404	4,773	4,914	5,139	5,820	6,258
EBITDA (excluding investment income)	3,897	4,286	4,657	4,769	4,896	5,607	6,061
EBITDA margin (excluding investment income)	7.6%	7.4%	7.7%	7.7%	7.9%	8.1%	8.1%

Source: Company; Sharekhan Research; Note: We have excluded investment income of Rs. 197 crore from Q3FY24 reported EBITDA of Rs. 6,258 crore

Store addition trend over Q1FY2021-Q3FY2024



Source: Company; Sharekhan Research

Key retail segment-wise performance

Segments	Commentaries on performance
Consumer Electronics	Consumer Electronics reported 19% YoY growth driven by higher ABV and improved conversions
	Strong performance of new launches and flagship models led growth across top brands, Increased assortment of ACs & exclusive launches in refrigerators
	PBG scales up / launches new products across categories; merchant base up 2.6x YoY
	JMD merchant base up 34% YoY; increasing merchant participation across multiple categories
Fashion & Lifestyle	**Apparel and Footwear –** Delivers steady growth driven by footfalls and conversions. Multiple store formats registered highest ever revenue during the quarter. Scaling up new formats including Azorte and Yousta. 'Swadesh' format launched, focusing on India's tradition and art forms
	Partner brands – Ajio Luxe delivers strong performance; Options up 36% YoY; portfolio crosses 660 brands. Acquired Sephora's India franchise business; signed distribution arrangement with SMCP for Sandro & Maje brands.
	Jewels – The jewels segment delivers steady performance led by festive and wedding season buying. Strong festive performance on Dhanteras with highest ever sales. Launched Vivaham wedding collection and 'Swarn Banga' regional collection.
	AJIO – It added 1.6 million new customers during the quarter; option count up 38% YoY. Launched AjioGram, D2C focused content driven platform that onboards & supports fashion start-ups.
Grocery	**Offline –** Grocery delivers 41% YoY growth with an uptick led by festive demand. Strong growth in non-food categories led by general merchandise & Home and Personal Care. Growth in "Bestival Sale" led by Confectionary, Snacks and Dry Fruits; highest ever single-day sale registered during the campaign period
	New Commerce – Integration of Metro India's operations on track; post-acquisition, Metro recorded highest ever quarterly sales
JioMart + Milkbasket	JioMart delivers steady growth led by increase in traffic and average order value. Catalogue expansion continues; option count up 84% YoY; expanded seller base, up 3x YoY. JioUtsav event witnessed 1.9x growth in sessions, 1.5x in orders, 2.3x in GMV vs BAU.
Consumer Brands	Business delivered a ~ 3x growth YoY in revenues and distribution reach. New product launches: "Masti Oye!" namkeen & sweets, "Deluxe" assorted toffees across multiple pack sizes under Toffeeman. Campa and Independence brands achieve new high

Source: Company; Sharekhan Research

Jio Platforms – Strong subscriber addition continued; flat q-o-q ARPU

Jio Platforms posted revenue growth of 3.1% q-o-q to Rs. 27,697 crore supported by robust net subscriber addition by 11.2 million q-o-q to 471 million subscribers as of December 2023. However, APRU disappointed as it remained flat q-o-q at Rs. 181.7. EBITDA margin came in at 50.4% as compared to 50.3% in Q2FY24 and thus, EBITDA grew by 3.2% q-o-q to Rs. 13,955 crore. PAT was up by 2.8% q-o-q to Rs. 5,445 crore, led by strong net subscriber addition which offsets higher depreciation and interest cost.

Other highlights

- Jio has rolled out Jio True 5G network across India ahead of schedule. About 90 million subscribers have migrated to Jio's 5G network.
- Jio continues to gain majority share of new 5G devices because of its superior coverage and capacity.
- JioAirFiber is now available in over 4,000 cities/ towns, with pan-India coverage expected in H1CY24.
- JioBharat has over 45% market share in total feature phone shipments in < Rs.1,000 price segment.

Jio Platforms' Performance

Rs cr

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Subscriber base (million)	419.9	427.6	432.9	439.3	448.5	459.7	470.9
APRU (Rs./month)	175.7	177.2	178.2	178.8	180.5	181.7	181.7
Gross revenue	27,527	28,506	29,195	29,871	30,640	31,537	32,510
Operating revenue	23,467	24,275	24,892	25,465	26,115	26,875	27,697
EBITDA	11,424	12,011	12,519	12,767	13,116	13,528	13,955
EBITDA Margin (%)	48.7%	49.5%	50.3%	50.1%	50.2%	50.3%	50.4%
D&A	4,329	4,625	4,917	5,093	5,275	5,415	5,602
EBIT	7,095	7,386	7,602	7,674	7,841	8,113	8,353
Interest	1,000	1,021	1,047	1,014	982	1,020	1,028
PBT	6,093	6,363	6,551	6,660	6,859	7,093	7,325
Tax	1,563	1,634	1,670	1,676	1,761	1,794	1,878
PAT	4,530	4,729	4,881	4,984	5,098	5,297	5,445

Source: Company; Sharekhan Research

Reliance Jio Infocomm Limited - Key operating metrics

	Q3'FY24	Q2'FY24	Q3'FY23
Total Customer base (million)	470.9	459.7	432.9
Net Customer addition (million)	11.2	11.1	5.3
ARPU (Rs/ month)	181.7	181.7	178.2
Total Data Consumption (crore GB)	3,806	3,628	2,895
Per Capita Data Consumption (GB/ month)	27.3	26.6	22.4
Voice on Network (crore mins per day)	1,491	1,450	1,382
Per Capita Voice Consumption (mins/ month)	982	979	985

- Strong **net customer addition of 11.2 million** in Q3'FY24
- **ARPU at Rs 181.7** in Q3'FY24
- Robust growth in data consumption led by increasing mix of 5G & Home users with **per capita usage of 27.3 GB per month**
- Total data and voice traffic increased 31.5% and 7.9% YoY, respectively

Source: Company

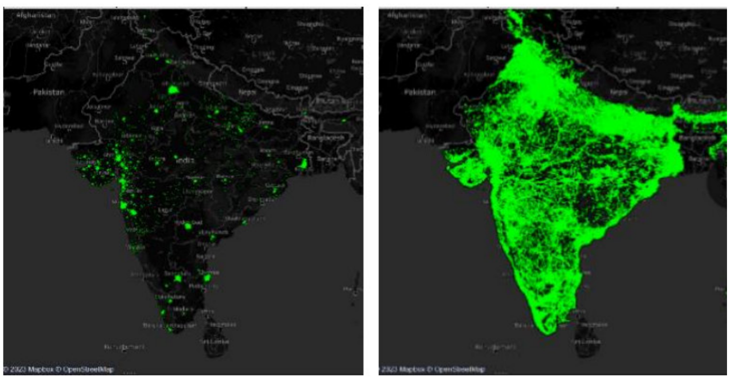
Jio has rolled out True5G network across India ahead of schedule

~90 million subscribers migrated to 5G

5G network carries one-fourth of mobility data traffic

- Jio's superior network attracting subscribers with:
  - Jio 5G availability **3x that of nearest competitor**
  - Overall download speed **2x that of nearest competitor**

Jio 5G Standalone network footprint



Dec'22 Dec'23

Source: Ericsson

Source: Company

Standalone business (O2C + oil and gas) – Resilient performance led by oil & gas biz.

Standalone EBITDA of Rs. 17,558 (up 48% y-o-y; down 8.5% q-o-q) was marginally ahead of our estimate and reflects strong growth of 52%/21% from oil & gas EBITDA to Rs. 5778 crore while O2C EBITDA declined by 21% q-o-q to Rs. 11,069 crore. The robust performance of oil & gas business was led by rise of 72%/6% y-o-y/q-o-q in natural gas production to 72.3 bcfe and benefit of operating leverage.

Petroleum product cracks – transportation fuel cracks declines q-o-q

Singapore gasoline cracks declined q-o-q to $7.6/bbl in Q3FY24 as compared to $13.1/bbl in Q2FY24 but improved as versus $5.1/bbl in Q3FY23 led by strong demand in the Asia-Pacific region and lower gasoline exports from China. Singapore gasoil cracks declined to $24.4/bbl versus $28.8/bbl in Q2F2Y4 and $41.5/bbl in Q3FY23 due to due to soft demand and resilient Russian diesel supplies in the market, pressurizing the cracks downwards. Singapore Jet kerosene cracks declined to $23.6/bbl versus $26.1/bbl in Q2FY24 and $33.5/bbl in Q3FY24.

Petrochemical margins

Polymer margins - PE margin over naphtha declined to $292/mt versus $335/tonne in Q2FY24 and $327/tonne in Q3FY23. PP margin also declined to $281/mt as compared to $297/tonne in Q2FY24.

Polyester chain margins - Polyester chain delta remained stable Y-o-Y as improvement in PX and MEG delta offset by weaker PTA and Polyester product deltas. Polyester chain margin was stable Y-o-Y at $ 488/MT during Q3FY24.

Standalone business performance — Rs cr

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Revenues	**1,27,695**	**1,25,849**	**1.5**	**1,37,380**	**-7.0**
EBITDA	**17,558**	**14,899**	**17.8**	**19,191**	**-8.5**
PAT	**9,924**	**8,373**	**18.5**	**11,208**	**-11.5**
Total Throughput (mmt)	18.7	18.8	-0.5	20.0	-6.5
Production meant for sale (mmt)	16.4	16.2	1.2	17.1	-4.1
Implied EBITDA (Rs. /tonne)	10,706	9,197	16.4	11,223	-4.6
Implied EBITDA ($/tonne)	**128.5**	**111.9**	**14.9**	**135.7**	**-5.3**
Segmental EBITDA (including other income)	**Q3FY24**	**Q3FY23**	**y-o-y (%)**	**Q2FY24**	**q-o-q (%)**
O2C	11,069	12,109	-8.6	14,013	-21.0
Oil & gas	5,778	3799	52.1	4,774	21.0
Others	1772	385	360.3	1628	8.8
Total standalone EBITDA	**18,619**	**16,293**	**14.3**	**20,415**	**-8.8**
Segmental EBIT	**Q3FY24**	**Q3FY23**	**y-o-y (%)**	**Q2FY24**	**q-o-q (%)**
O2C	9,616	10,646	-9.7	12,435	-22.7
Oil & gas	4100	3139	30.6	3464	18.4
Others	382	49	679.6	172	122.1
Total standalone EBIT	**14,098**	**13,834**	**1.9**	**16,071**	**-12.3**

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
Revenue	**2,25,086**	**2,16,737**	**3.9**	**2,31,886**	**(2.9)**
Total expenditure	1,84,430	1,81,728	1.5	1,90,918	(3.4)
Operating profit	**40,656**	**35,009**	**16.1**	**40,968**	**(0.8)**
Other income	3,869	3,146	23.0	3,841	0.7
EBITDA	**44,525**	**38,155**	**16.7**	**44,809**	**(0.6)**
Interest	5,789	5,201	11.3	5,731	1.0
Depreciation	12,903	10,183	26.7	12,585	2.5
PBT	**25,833**	**22,771**	**13.4**	**26,493**	**(2.5)**
Exceptional item	-	-	NA	-	NA
Tax	6,345	5,196	22.1	6,673	(4.9)
PAT	**19,488**	**17,575**	**10.9**	**19,820**	**(1.7)**
Profit from discontinued operations	**-**	**100**	**NA**	**-**	**NA**
To associates & Minority interest	(2,223)	(1,883)	NA	(2,426)	NA
Extraordinary items	-			-	
Reported PAT	**17,265**	**15,792**	**9.3**	**17,394**	**(0.7)**
Reported EPS	25.5	23.3	9.3	25.7	(0.7)
Margin (%)			**BPS**		**BPS**
OPM	18.1	16.2	191	17.7	40
NPM	7.7	7.3	38	7.5	17
Tax rate	24.6	22.8	174	25.2	(63)

Source: Company; Sharekhan Research

Segment-wise performance (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
O2C	1,41,096	1,44,630	(2.4)	1,47,988	(4.7)
Oil & gas	6,719	4,474	50.2	6,620	1.5
Organized Retail	83,040	67,629	22.8	77,163	7.6
Digital Service	33,463	30,344	10.3	32,657	2.5
Others	12,476	19,371	(35.6)	19,114	(34.7)
Total Gross Revenue	**2,76,794**	**2,66,448**	**3.9**	**2,83,542**	**(2.4)**
Less: Segment Transfer	28,634	25,916	10.5	27,546	3.9
Turnover	**2,48,160**	**2,40,532**	**3.2**	**2,55,996**	**(3.1)**
Less: excise duty + GST	23,074	23,795	(3.0)	24,110	(4.3)
Net sales	**2,25,086**	**2,16,737**	**3.9**	**2,31,886**	**(2.9)**
EBIT					
O2C	11,993	11,891	0.9	14,088	(14.9)
Oil & gas	4,116	3,207	28.3	3,443	19.5
Organized Retail	4,884	3,726	31.1	4,428	10.3
Digital Service	8,361	7,543	10.8	8,227	1.6
Others	184	103	78.6	441	(58.3)
Total EBIT	**29,538**	**26,470**	**11.6**	**30,627**	**(3.6)**
EBIT Margins (%)					
O2C	8.5	8.2	28	9.5	(102)
Oil& gas	61.3	71.7	(1,042)	52.0	925
Organized Retail	5.9	5.5	37	5.7	14
Digital Service	25.0	24.9	13	25.2	(21)
Others	1.5	0.5	94	2.3	(83)
Total EBIT Margin	**13.1**	**12.2**	**91**	**13.2**	**(8)**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Indian retail market to grow strongly; Telecom to benefit from potential further rise in APRUs; Sharp GRM fall could impact downstream margin

India's retail sector is expected to post a CAGR of 8% over FY2020-FY2026 and reach $1.3 trillion by FY2026. Within this, organised retail is likely to grow at a higher rate of 16% as its share is slated to expand to 18% (from 11% currently) and reach ~$250 billion by FY2026. India's telecom sector has consolidated to only four players (three private players and one government-owned telecom company) from more than eight players earlier. With this, we believe that the pricing war is largely over for telecom companies and ARPU is expected to grow further going ahead post the recent tariff hikes by telecom operators. We believe higher bundling with home entertainment, partnerships with content providers, and increasing data consumption due to work from home could be major drivers for price hikes going ahead. Additionally, the focus to switch 2G customers to 4G with the likely introduction of affordable smartphones bodes well for telecom players. The recent sharp fall in Singapore complex GRMs from the recent peak of >$30/bbl and continued export duty on diesel/ATF may keep downstream margins volatile in the near term.

■ Company Outlook – Consumer business to drive the next leg of growth

We believe the next leg of growth for RIL would be driven by improved earnings contribution from ramp-up of optic fibre broadband services, enterprise business, and new commerce. Additionally, the company's unique online-offline retailing strategy would aid growth and drive retail business's margins. However, the recent sharp decline in refining margins and export duty on diesel/ATF would mean lower realised margin in the O2C business. Overall, we expect a 14% PAT CAGR over FY2023-FY2026E.

■ Valuation – Maintain Buy on RIL with a revised SoTP-based PT of Rs. 3,130

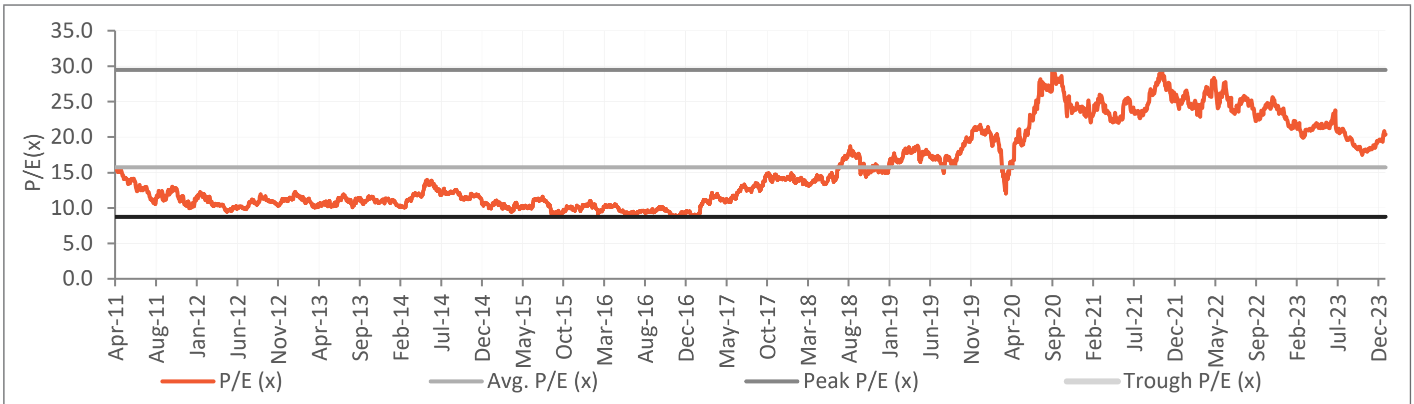
We expect continued strong earnings traction in its consumer-centric business – Jio (likely further telecom tariff hikes, 5G rollout and ramp-up of home broadband) and retail (high growth in retail, led by market share gain and new commerce). We firmly believe that it is compelling long term investment bet given strong prospects across business and potential value unlocking from retail, digital services, and financial services portfolio would add to shareholders' returns over the coming years. Hence, we maintain a Buy on RIL with a revised SoTP-based price target (PT) of Rs. 3,130 (increase in PT reflects rollover of valuation multiple to FY26 earnings estimates). At CMP, the stock trades at 20x/19x its FY25E/FY26E EPS and 10x/9.2x its FY25E/FY26E EV/EBITDA.

RIL SoTP valuation

Particulars	Methodology	Value per share (Rs. /share)
Refining	7.5x FY26E EV/EBITDA	333
Petrochem	7.5x FY26E EV/EBITDA	426
Upstream	4x FY26E EV/EBITDA	190
Retail	28x FY26E EV/EBITDA	1,111
Digital Services	12x FY26E EV/EBITDA	949
New Energy option value		85
Others		32
Enterprise Value		**3,126**
Net Debt		(4)
Price target		**3,130**

Source: Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

About company

RIL is a diversified conglomerate with business interests across oil refining, petrochemicals, exploration and production, retail, and digital services. The company has one of the world's largest refining assets with high Nelson complexity level and an integrated petrochemical complex. RIL launched its telecom services, under the brand JIO, in September 2016 and this business has already started reporting profits. Core businesses of refining and petrochemicals accounted for ~60% of consolidated EBITDA in FY2020, while customer-centric businesses (retail and digital services) contributed 35% to consolidated EBITDA.

Investment theme

Improving growth prospects of the telecom business with potential ARPU hike, ramp-up of broadband/5G services and sustained high growth in the retail business would be key catalysts for long-term value creation. The company's target to increase its share of EBITDA from consumer-centric over the next few years bodes well for RIL amid volatility in refining and petrochemical margins. Further, value unlocking in digital and retail would add value to shareholders' return over the coming years. Planned clean energy investment of $10 billion could create long-term value for RIL.

Key Risks

- Lower-than-expected refining and petrochemical margins in case global capacity additions surpass incremental demand.
- Slower-than-expected pace of subscriber addition and ramp-up of broadband services and slowdown in retail business could impact earnings and valuations.

Additional Data

Key management personnel

Mukesh D. Ambani	Chairman and Managing Director
Alok Agarwal	Chief Financial Officer
PMS Prasad	Executive Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.10
2	SBI Funds Management Ltd	2.10
3	Vanguard Group Inc/The	2.00
4	Capital Group Cos Inc/The	1.80
5	BlackRock Inc	1.60
6	Republic of Singapore	1.50
7	EUROPACIFIC GROWTH FUND	1.40
8	FMR LLC	1.36
9	ICICI Prudential Asset Management	0.95
10	Norges Bank	0.79

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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