

Reliance Industries

Robust earnings from energy businesses

Our ADD rating on Reliance Industries (RIL) with a price target of INR 2,515/sh is premised on (1) recovery in the O2C businesses; (2) EBITDA growth in the digital business, driven by improvement in ARPU, subscriber addition, and new revenue streams; and (3) potential for further value unlocking in the digital and retail businesses. RIL's consolidated EBITDA at INR 410bn (+32% YoY; +8% QoQ, HSIE: INR 385bn) and APAT at INR 174bn (+27% YoY, +9% QoQ) came in above our estimates, supported by better-than-expected performance from its energy businesses.

- **Oil to chemicals (O2C) segment:** O2C EBITDA improved +6% QoQ to INR 163bn, driven by an improvement in product spreads and PVC margins. However, weak polyethylene (PE), polypropylene (PP), and polyester chain deltas partially offset this. Crude throughput came in higher-than-expected at 20mmt (+8% YoY, +2% QoQ), while production meant for sale stood at 17.1mmt, (+6% YoY, -1% QoQ).
- **Oil & gas:** Revenue grew sharply to INR 66bn (+72% YoY, +43% QoQ) while EBITDA improved to INR 48bn (+50% YoY, +19% QoQ), owing to higher price realisation and production from the KG D6 block. The average KG D6 production for Q2 was at 28.3mmscmd, up +49% YoY, +35% QoQ, with current overall production from the KG D6 block trending at ~30mmscmd.
- **RJPL:** Revenue improved to INR 315bn (+11% YoY, +3% QoQ) due to higher ARPU of INR 181.7 (+2.5% YoY, +1% QoQ) and net subscriber addition of 11.1mn. The total customer base stands at 459.6mn, as of Q2.
- **Reliance Retail (RR):** Net revenue grew 19.5% YoY to INR 689bn. Core retail revenue is estimated to have clocked ~24% YoY to ~INR 521bn (HSIE: INR 507bn). Footfalls were up 41% YoY at 260mn. Digital + New Commerce contribution remains healthy at 19% of core retail sales. EBITDA grew 30.8% YoY to INR 56.1bn (HSIE: INR 51.21bn). Retail EBITM expanded 18bps YoY to 6.1% (HSIE: 6%). RR added 461 stores in Q2, taking the store count to 18,650 and the retail area stood at 71.5mn sq. ft.
- **Debt:** RIL's Q2 consolidated net debt declined QoQ; however, it remains elevated at INR 1,177bn (vs net debt of INR 1,266bn, as of Jun-23), owing to accelerated capex in retail operations and 5G network rollout. Total capex incurred in Q2 was INR 388bn.
- **Change in estimates:** We cut our FY24/25 consolidated EPS by 7/5.5% to INR 104.1/111.3 to factor in H1 performance and slight moderation in earnings from the telecom and energy businesses, delivering a revised target price of INR 2,515.
- **Valuation:** We use EV/EBITDA to value downstream at Mar-25E EV/e, retail on peer benchmarked EV/e and E&P and Jio on DCF. The stock is currently trading at 10.3x Mar-25E EV/EBITDA and 20.4x Mar-25E EPS.

Financial summary – consolidated

Year Ending March (INR bn)	Q2 FY24	Q1 FY24	QoQ (%)	Q2 FY23	YoY (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,319	2,076	11.7	2,294	1.1	7,000	8,778	11,427	12,269	13,090
EBITDA	410	381	7.5	310	32.0	1,105	1,422	1,640	1,756	1,848
PAT	174	160	8.6	137	27.4	584	667	704	753	787
Diluted EPS (INR)	25.7	23.7	8.6	20.2	27.4	86.4	98.6	104.1	111.3	116.4
P/E (x)						26.2	23.0	21.8	20.4	19.5
EV / EBITDA (x)						16.2	12.6	11.0	10.3	9.8
RoE (%)						7.9	8.9	9.5	9.4	9.1

Source: Company, HSIE Research

ADD

CMP (as on 27 Oct 2023) INR 2,266

Target Price INR 2,515

NIFTY 19,047

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 2,700	INR 2,515
EPS %	FY24E	FY25E
	-7.0%	-5.5%

KEY STOCK DATA

Bloomberg code	RELANCE IN
No. of Shares (mn)	6,766
MCap (INR bn) / (\$ mn)	15,330/1,87,448
6m avg traded value (INR mn)	16,749
52 Week high / low	INR 2,632/1,986

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(9.5)	4.6	1.5
Relative (%)	(5.7)	(0.5)	(5.3)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	50.39	50.27
FIs & Local MFs	16.23	16.07
FPIs	22.55	22.60
Public & Others	10.83	11.06
Pledged Shares	0.0	0.0

Source : BSE

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Quarterly Consolidated Financial Snapshot

(INR bn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Revenues	2,319	2,076	11.7	2,294	1.1
Material Expenses	1,527	1,317	16.0	1,591	(4.0)
Employee Expenses	59	66	(9.9)	61	(3.3)
Other Operating Expenses	323	312	3.4	331	(2.5)
EBIDTA	410	381	7.5	310	32.0
Depreciation	126	118	6.9	97	29.4
EBIT	284	263	7.8	213	33.2
Other Income (incl EO items)	38	38	0.7	35	10.5
Interest Cost	57	58	(1.8)	46	25.8
PBT	265	243	9.1	202	30.9
Tax	67	61	9.2	48	38.0
RPAT	198	182	9.0	154	28.7
Profit/Loss of Associate Company	1	1	(23.7)	(1)	(184.1)
Minority Interest	25	22	10.5	19	33.8
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
APAT	174	160	8.6	137	27.4
EPS	25.7	23.7	8.6	20.2	27.4

Source: Company, HSIE Research

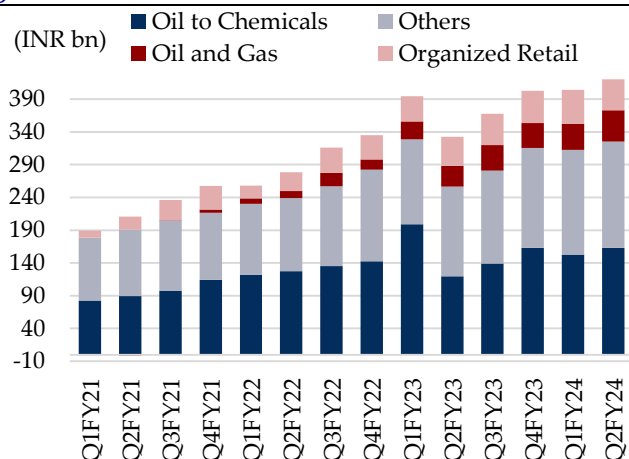
Quarterly Consolidated Segmental Snapshot

(INR bn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Segmental Revenues					
Oil to Chemicals (O2C)	1,480	1,330	11.2	1,597	(7.3)
Oil and Gas	66	46	42.9	39	71.8
Organised Retail	772	700	10.3	649	18.8
Digital Services	327	321	1.8	296	10.5
Others	191	178	7.2	209	(8.3)
Gross revenue	2,835	2,575	10.1	2,789	1.7
Less: Inter Segment Transfers	275	264	4.4	260	5.9
Value of Sales & Services	2,560	2,311	10.8	2,528	1.2
Less: GST Recovered	241	236	2.3	234	2.9
Revenue from Operations	2,319	2,076	11.7	2,294	1.1
Segmental Results Before Interest, Tax & Exceptional					
Oil to Chemicals (O2C)	141	132	6.9	98	44.0
Oil and Gas	34	32	7.9	25	37.2
Organised Retail	44	38	16.1	35	25.1
Digital Services	82	79	3.7	73	11.9
Others	4	6	(26.4)	4	17.3
Total	306	287	6.6	236	30.0
EBIT Margins (%)					
Oil to Chemicals (O2C)	9.5	9.9	(39)	6.1	339
Oil and Gas	52.0	68.9	(1,688)	65.1	(1,313)
Organised Retail	5.7	5.5	29	5.5	29
Digital Services	25.2	24.7	45	24.9	33
Others	2.3	3.4	(105)	1.8	50

Source: Company, HSIE Research

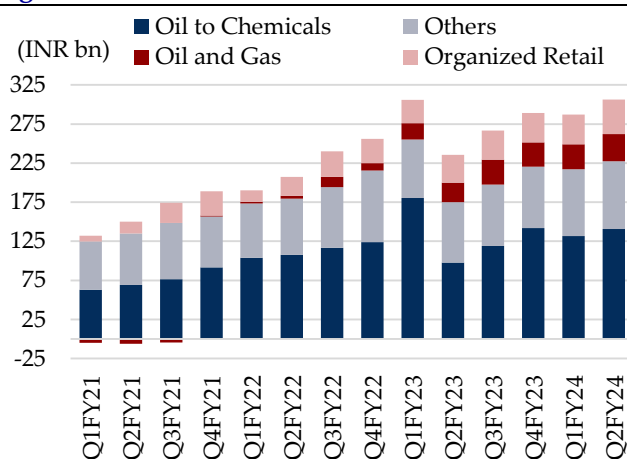
Story in Charts

Segmental EBITDA (consolidated)



Source: Company, HSIE Research

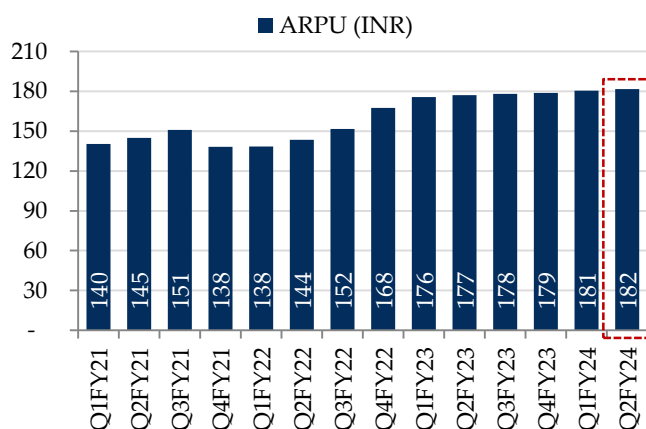
Segmental EBIT (consolidated)



Source: Company, HSIE Research

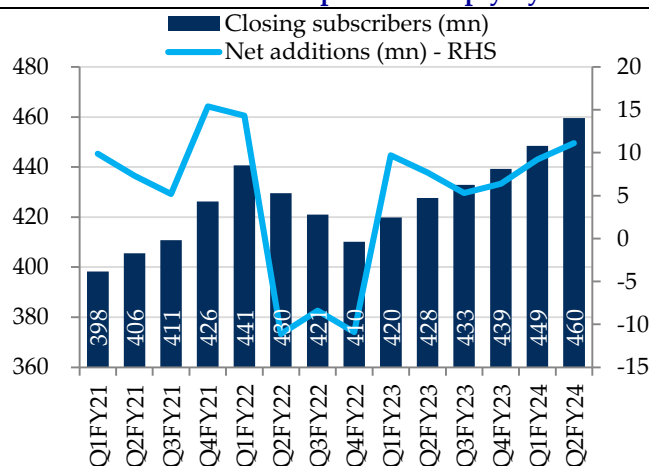
Jio Platforms

Gradual improvement in ARPU seen in Q2...



Source: Company, HSIE Research

...while subscriber base improved sharply by 11.1mn



Source: Company, HSIE Research

Reliance Jio Platforms

Quarterly Financial Snapshot (Consolidated)

(INR bn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Value from Services	315	306	2.9	285	10.6
Revenue from Operations	269	261	2.9	243	10.7
EBITDA	135	131	3.1	120	12.6
EBITDA Margin %	50.3%	50.2%		49.5%	
D&A	54	53	2.7	46	17.1
EBIT	81	78	3.5	74	9.8
Finance Costs	10	10	3.9	10	(0.1)
Profit before Tax	71	69	3.4	64	11.4
Net Profit	53	51	3.9	47	12.0

Source: Company, HSIE Research

Quarterly Operational Snapshot

	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Closing Subs (Mn)	460	449	2.5	428	7.5
Net Adds (Mn)	11	9	20.7	8	44.2
ARPU (Rs)	182	181	0.7	177	2.5
Data Usage (Mn GB)	36,280	33,200	9.3	28,230	28.5
Data Usage/Sub (GB/Month)	27	25	6.8	22	19.9
Minutes of Usage (Bn Mins)	1,334	1,336	(0.2)	1,232	8.3
MOU/Sub (Mins)	979	1,003	(2.4)	969	1.0

Source: Company, HSIE Research

Reliance Retail

Quarterly Financial Snapshot

(INR bn)	Q2FY24	Q1FY24	QoQ %	Q2FY23	YoY %
Net Revenue	689	622	10.9	577	19.5
EBITDA	56	49	14.5	43	30.8
EBITDA margin %	8.1%	7.9%		7.4%	

Source: Company, HSIE Research

Change in estimates

Consolidated	FY24E			FY25E		
	Old	New	% Ch	Old	New	% Ch
EBITDA (INR bn)	1,691	1,640	(3.0)	1,795	1,756	(2.2)
EPS (INR/share)	111.9	104.1	(7.0)	117.7	111.3	(5.5)

Source: Company, HSIE Research

HSIE vs consensus estimates

(Rs mn)	HSIE		Consensus		Var (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
EBITDA	1,640	1,756	1,620	1,827	1.2%	-3.9%
EPS (Rs/sh)	104.1	111.3	110.9	127.4	-6.2%	-12.7%

Source: Company, HSIE Research

SOTP valuation

Business	EBIDTA (INR bn)	Multiple (x)	EV (INR bn)	Value per share (INR/sh)	Valuation basis
Petrochemicals	91	8.0	732	108	EV/EBITDA on Mar-25E
Refining	428	8.0	3,426	506	EV/EBITDA on Mar-25E
E & P			464	69	NPV
Retail	226	30	6,038	893	EV/EBITDA on Mar-25E
Telecom			3,784	559	NPV
Investments/CWIP			4,036	597	
Consol. net Debt/creditors for capex/deferred spectrum liabilities			(1,469)	(217)	As on Mar-25
Value per share			17,011	2,515	

Source: Company, HSIE Research

Financials

Consolidated Income Statement

INR bn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	5,692	5,975	4,669	7,000	8,778	11,427	12,269	13,090
Growth %	45.3	5.0	(21.9)	49.9	25.4	30.2	7.4	6.7
Raw Material	3,945	4,052	2,927	4,749	5,885	7,891	8,436	9,018
Employee Cost	125	141	148	188	249	261	277	291
Other Expenses	781	892	787	958	1,223	1,635	1,800	1,933
EBITDA	842	890	807	1,105	1,422	1,640	1,756	1,848
EBITDA Margin (%)	14.8	14.9	17.3	15.8	16.2	14.4	14.3	14.1
EBITDA Growth %	31.2	5.8	(9.3)	36.8	28.7	15.4	7.1	5.3
Depreciation	209	222	266	298	403	472	503	534
EBIT	632	668	542	807	1,019	1,168	1,253	1,315
Other Income (Including EO Items)	84	87	220	178	117	124	131	136
Interest	165	220	212	146	196	241	257	267
PBT	551	535	549	839	940	1,051	1,127	1,184
Tax	154	137	17	163	204	256	275	291
RPAT before minority interest	397	398	532	676	736	796	851	894
Share of associates/Minority interest	(1)	(4)	(41)	(69)	(69)	(92)	(98)	(106)
RPAT after adjusting for Associates/Minority interest	396	394	491	607	667	704	753	787
EO (Loss) / Profit (Net Of Tax)	-	(34)	54	23	-	-	-	-
APAT	396	427	437	584	667	704	753	787
APAT Growth (%)	9.7	8.0	2.2	33.8	14.1	5.6	6.9	4.6
AEPS	66.8	67.4	67.8	86.4	98.6	104.1	111.3	116.4
AEPS Growth %	9.7	0.9	0.5	27.5	14.1	5.6	6.9	4.6

Consolidated Balance Sheet

INR bn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS								
Share Capital	59	63	64	68	68	68	68	68
Reserves And Surplus	3,812	4,428	6,937	7,727	7,091	7,575	8,263	8,985
Total Equity	3,871	4,492	7,002	7,795	7,159	7,643	8,330	9,052
Minority Interest	83	122	993	1,095	1,130	1,243	1,305	1,371
Long-term Debt	2,075	1,976	1,637	1,877	1,832	1,996	2,071	2,110
Short-term Debt	800	1,387	881	786	1,308	846	855	870
Total Debt	2,875	3,363	2,518	2,663	3,140	2,843	2,927	2,980
Deferred Tax Liability	645	705	552	864	1,725	1,814	1,810	1,806
Long-term Provision	162	206	242	269	255	257	258	259
TOTAL SOURCES OF FUNDS	7,636	8,888	11,306	12,686	13,409	13,799	14,630	15,468
APPLICATION OF FUNDS								
Net Block	3,864	5,224	5,310	6,148	7,095	8,035	8,808	9,714
Capital WIP	1,795	1,091	1,260	1,725	2,938	2,869	2,865	2,623
Goodwill on consolidation	120	103	102	130	153	153	153	153
LT Loans And Advances	55	217	25	40	40	37	37	38
Non-current investments	1,646	2,039	2,124	2,861	1,171	1,171	1,171	1,171
Non-current assets	223	374	650	612	409	421	434	448
Total Non-current Assets	7,702	9,048	9,471	11,516	11,806	12,686	13,468	14,147
Inventories	676	739	817	1,078	1,400	1,662	1,734	1,808
Debtors	301	197	190	236	284	367	392	419
Cash and Cash Equivalent	111	309	174	362	687	353	330	430
ST Loans And Advances	5	7	1	1	2	2	2	2
Other Current Assets	471	602	1,024	712	695	641	712	767
Current investments	710	729	1,524	1,081	1,185	1,335	1,385	1,435
Total Current Assets	2,274	2,583	3,730	3,470	4,253	4,360	4,555	4,862
Creditors	1,083	968	1,089	1,593	1,472	2,011	2,098	2,182
Other Current Liabilities & Provns	1,257	1,775	805	707	1,178	1,235	1,296	1,359
Total Current Liabilities	2,340	2,743	1,894	2,301	2,650	3,247	3,393	3,541
Net Current Assets	(66)	(160)	1,836	1,170	1,603	1,113	1,162	1,321
TOTAL APPLICATION OF FUNDS	7,636	8,888	11,306	12,686	13,409	13,799	14,630	15,468

Source: Company, HSIE Research

Consolidated Cash Flow

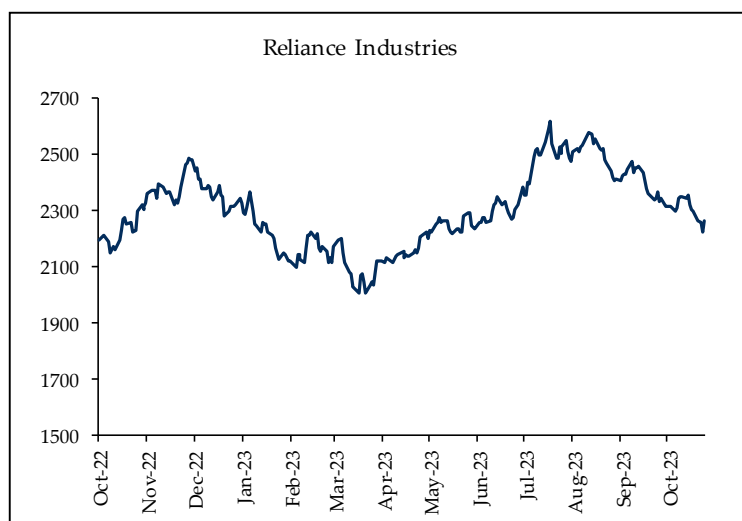
YE March (INR bn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	551	535	549	839	940	1,051	1,127	1,184
Non-operating & EO Items	(85)	(57)	(315)	(269)	(187)	(216)	(229)	(243)
Interest Expenses	165	220	212	146	196	241	257	267
Depreciation	209	222	266	298	403	472	503	534
Working Capital Change	(420)	292	(2,131)	854	(109)	157	(72)	(59)
Tax Paid	44	(77)	(171)	149	658	(167)	(279)	(294)
OPERATING CASH FLOW (a)	464	1,134	(1,589)	2,016	1,901	1,538	1,306	1,389
Capex	(79)	(861)	(520)	(1,629)	(2,586)	(1,343)	(1,272)	(1,198)
Free Cash Flow (FCF)	385	273	(2,110)	387	(685)	195	34	190
Investments	(1,394)	(392)	(85)	(738)	1,691	-	-	-
Non-operating Income	84	87	220	178	117	124	131	136
Others	(165)	(313)	(83)	23	202	(9)	(13)	(14)
INVESTING CASH FLOW (b)	(1,553)	(1,480)	(469)	(2,166)	(576)	(1,228)	(1,155)	(1,076)
Debt Issuance/(Repaid)	687	488	(845)	145	477	(297)	84	53
Interest Expenses	(165)	(220)	(212)	(146)	(196)	(241)	(257)	(267)
FCFE	908	541	(3,166)	386	(404)	(343)	(139)	(23)
Share Capital Issuance	0	4	1	3	0	-	-	-
Dividend	(43)	(46)	(39)	(43)	(51)	(54)	(54)	(54)
Others	678	318	3,018	378	(1,231)	(52)	52	56
FINANCING CASH FLOW (c)	1,157	544	1,923	337	(1,001)	(644)	(175)	(212)
NET CASH FLOW (a+b+c)	68	198	(135)	188	325	(333)	(23)	100
EO Items, Others	-	-	-	-	-	-	-	-
Closing Cash & Equivalents	111	309	174	362	687	353	330	430

Key Ratios

Ratios	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY %								
EBITDA Margin	14.8	14.9	17.3	15.8	16.2	14.4	14.3	14.1
EBIT Margin	11.1	11.2	11.6	11.5	11.6	10.2	10.2	10.0
APAT Margin	7.0	7.2	9.4	8.3	7.6	6.2	6.1	6.0
RoE	11.6	10.2	7.6	7.9	8.9	9.5	9.4	9.1
RoIC	12.2	11.3	6.6	7.3	9.1	8.9	8.8	8.4
RoCE	7.7	7.2	6.4	5.9	6.3	6.5	6.7	6.6
EFFICIENCY								
Tax Rate %	27.9	25.7	3.1	19.4	21.7	24.3	24.4	24.5
Fixed Asset Turnover (x)	1.0	0.9	0.6	0.8	0.9	1.0	1.0	1.0
Inventory (days)	43	45	64	56	58	53	52	50
Debtor (days)	19	12	15	12	12	12	12	12
Other Current Assets (days)	31	37	80	37	29	21	21	21
Payables (days)	100	87	136	122	91	93	91	88
Other Current Liab & Provns (days)	116	160	100	54	73	57	56	55
Cash Conversion Cycle (days)	(123)	(153)	(77)	(71)	(65)	(65)	(62)	(60)
Net Debt/EBITDA (x)	2.4	2.6	1.0	1.1	0.9	0.7	0.7	0.6
Net D/E	0.5	0.5	0.1	0.2	0.2	0.2	0.1	0.1
Interest Coverage	3.8	3.0	2.6	5.5	5.2	4.8	4.9	4.9
PER SHARE DATA (Rs)								
EPS	66.8	67.4	67.8	86.4	98.6	104.1	111.3	116.4
CEPS	97.7	100.2	107.1	130.4	158.2	173.8	185.7	195.2
Dividend	6.1	5.7	5.8	6.4	9.0	8.0	8.0	8.0
Book Value	572.1	663.9	1,034.8	1,152.1	1,058.0	1,129.6	1,231.2	1,337.9
VALUATION								
P/E (x)	33.9	33.6	33.4	26.2	23.0	21.8	20.4	19.5
P/Cash EPS (x)	23.2	22.6	21.2	17.4	14.3	13.0	12.2	11.6
P/BV (x)	4.0	3.4	2.2	2.0	2.1	2.0	1.8	1.7
EV/EBITDA (x)	21.0	20.2	21.5	16.2	12.6	11.0	10.3	9.8
EV/Revenue (x)	3.1	3.0	3.7	2.6	2.0	1.6	1.5	1.4
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
OCF/EV (%)	2.6	6.3	(9.1)	11.3	10.6	8.6	7.2	7.7
FCFF/EV (%)	2.2	1.5	(12.1)	2.2	(3.8)	1.1	0.2	1.1
FCFE/M Cap (%)	5.8	3.5	(20.3)	2.5	(2.6)	(2.2)	(0.9)	(0.1)

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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