

November 22, 2024

COMPANY UPDATE | Sector: Energy

Reliance Industries Ltd

Trading at bear case, signaling valuation recovery

Reliance Industries' stock price has seen a significant correction and is now trading at its bear case scenario, with limited downside from here. We expect a recovery driven by strong growth across its key segments. Jio Platforms is poised for monetization, with tariff hikes boosting ARPU and the upcoming Jio IPO providing a major valuation catalyst. Reliance Retail, which is currently lacking on near term growth, while facing competition, is well-positioned for a long-term growth through its omnichannel strategy and strategic acquisitions. The O2C segment remains robust despite global supply disruptions expecting refining margins to improve supported by global shutdowns and winter demand. The upstream oil and gas segment remains stable with ongoing deepwater projects and increasing domestic gas demand. Additionally, Reliance's Rs750bn new energy investment, aiming for 100GW of renewable capacity by 2030, strengthens its position as a leader in India's energy transition, providing significant long-term value. The consumer segment - Retail and JIO which are contributing over 55% to its FY27 EBITDA forms ~ 70% of the TP.

We maintain BUY with a TP of Rs 1,500/shr.

Investment Rationale

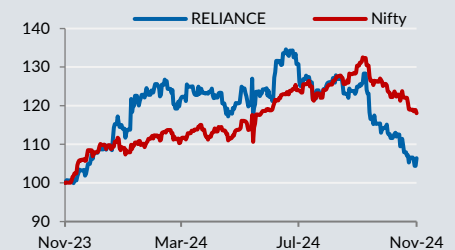
- The **O2C segment** is positioned to capitalize on a recovery in refining margins despite recent challenges. The global product cracks had fallen due to supply disruptions, while the demand for petroleum products remains strong. The global shutdowns, strong product demand and net capacity additions being slow will keep the key product cracks elevated supporting GRMs. Reliance with its competitive sourcing strategy, would continue to achieve a superior GRM ranging over USD10/bbl. It seems feasible, compared to the last seven-year average reported GRM of USD10.1/bbl and a Singapore GRM of USD5.5. In petrochemicals, Reliance's margins have faced pressure but are expected to stabilize with a rebound in global oil demand, particularly from China. The company is expanding its capacity with 1.5mtpa of PVC and CPVC by FY27, 1mtpa of specialty polyester, and developing a carbon fiber plant at Hazira.
- The **domestic upstream segment** remained firm witnessing flattish production growth for KGD6 and marginal improvement in CBM partially offsetting lower gas prices. While KGD6 continues to contribute >30% of India's gas production, in Q2FY25 it marginally declined to 28.5mmscmd and 20,832bbls/day of oil. Reliance commissioned six deepwater fields, including the MJ field on schedule, and improved CBM production with a 40-well campaign. Future projects include geothermal energy, coal gasification, natural hydrogen, and helium.
- **Jio-BP Fuel Retail** provides high-performance diesel at par with regular diesel and has expanded to 305 convenience stores with over 4,800 charge points. It is also India's largest retailer of high methane compressed biogas.
- **New Energy Initiatives:** Reliance Industries' new energy expansion, supported by a Rs750bn investment, is a key step toward its goal of net carbon neutrality by 2035. The centerpiece is the Rs600bn Dhirubhai Ambani Green Energy Giga Complex in Jamnagar, covering 5,000 acres, with Rs150bn allocated to build a comprehensive renewable energy ecosystem. Reliance aims to deliver 100GW of renewable capacity by 2030, contributing ~20% to India's 500GW target. Key initiatives include 55 CBG plants by 2025 and the establishment of the world's largest bioenergy R&D center. The 20GW solar gigafactory, starting with a 10GW capacity, will produce high-efficiency solar modules using advanced Heterojunction Technology (HJT) from REC Solar and Caelux where Reliance New energy owns a stake. Additionally, Reliance is investing in a 30GWh battery facility and a multi-GW electrolyzer plant, which is expected by end of CY25 and CY26, respectively. With a USD10bn investment in solar, green hydrogen, and battery storage, Reliance Industries is well-positioned to lead India's energy transition.

Reco	: BUY
CMP	: Rs 1,264
Target Price	: Rs 1,500
Potential Return	: +18.7%

Stock data (as on Nov 22, 2024)

Nifty	23,907
52 Week h/l (Rs)	1609 / 1168
Market cap (Rs/USD mn)	16802470 / 199124
Outstanding Shares (mn)	13,533
6m Avg t/o (Rs mn):	19,177
Div yield (%):	0.4
Bloomberg code:	RELIANCE IN
NSE code:	RELIANCE

Stock performance



	1M	3M	1Y
Absolute return	-5.8%	-15.5%	6.0%

Shareholding pattern (As of Oct'24 end)

Promoter	49.1%
FII+DII	38.3%
Others	10.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,500	1600

Δ in estimates

(1-Yr)	FY25e	FY26e	FY27e
EPS (New)	71.1	75.3	82.5
EPS (Old)	131.7	141.9	157.2
% Change	(46.0)	(46.9)	(47.6)

Financial Summary

(Rs bn)	FY25E	FY26E	FY27E
Revenue	11,606.3	12,285.5	13,249.2
YoY Growth	26.9	5.9	7.8
EBIDTA	1,852.1	1,987.8	2,183.6
OPM %	16.0	16.2	16.5
PAT	962.5	1,019.4	1,115.9
YoY Growth	21.8	5.9	9.5
ROE	9.9	9.6	9.6
EPS	71.1	75.3	82.5
P/E	17.8	16.8	15.3
BV	749.6	819.5	896.7
EV/EBITDA	6.7	6.7	6.4

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- **Monetization of Digital Services:** Reliance Jio Platforms Limited (JPL) presents a robust investment case as it transitions from completing its 5G rollout to aggressively monetizing its infrastructure. In Q2FY25, a tariff hike led to a significant ARPU increase to Rs195.1, despite a subscriber base decline of 10.9mn to 478.8mn, driven by some SIM consolidation. Jio's FTTH segment gaining traction, with AirFiber connections surpassing 2.8mn, boosting overall growth. The tariff hikes would improve FCF, setting the stage for sustained investments. JioBharat phones are targeting 2G-to-4G migration, bundling content subscriptions and driving net subscriber growth. Digital services, including IoT, cloud, and AI opportunities, are poised for a potential inflection point by CY25, further enhancing revenue diversification. The anticipated Jio IPO in end 2025 or early 2026 serves as a major valuation unlock expecting to garner significant investor interest and liquidity.
- **Retail to be a critical driver:** Reliance Retail's growth is marked by its balanced focus on omnichannel presence and strategic acquisitions, but challenges persist in achieving seamless integration across its diverse portfolio with fashion slowing the growth. While its physical network is supported by JioMart's digital reach, scaling partnerships with ~56,000 kirana stores highlights the complexity of bridging unorganized and organized retail. Strategic acquisitions, like Hamleys and Metro Cash & Carry, target niche opportunities but may require time to deliver consistent synergies. The revenue per store per quarter is at Rs 40mn which we expect to improve to over Rs50mn by FY27. Although offerings like Ajio, Tira, and the Shein partnership showcase efforts to diversify, competition from established players like Amazon and Nykaa remains intense. We believe that private labels and luxury brands would improve the blended EBITDA margins for the company. Reliance's ability to optimize its vast ecosystem while maintaining efficiency and profitability in a highly fragmented market will be critical to sustaining momentum.

Exhibit 1: Valuation case scenarios

Base Case				
	US\$ bn	EV Rs bn	Rs/share	Comments
O2C	54	4,512	333	GRM of US\$10.5x/bbl
E&P	17	1,435	106	Gas realization of US\$ 10/mmbtu
RJIO	72	5,983	442	ARPU at Rs 254.6
Retail	100	8,296	613	EBITDA margin at 7.5%
New - Green Energy	10	866	64	EBITDA margin at 11%
EV	254	21,092	1,559	
Less: Net debt	10	794	59	
Equity Value	245	20,298	1,500	
Bull Case				
O2C	62	5,154	381	GRM of US\$12.5x/bbl
E&P	21	1,761	130	Gas realization of US\$ 12/mmbtu
RJIO	79	6,526	482	ARPU at Rs 280
Retail	107	8,854	654	EBITDA margin at 8.0%
New - Green Energy	11	945	70	EBITDA margin at 12%
EV	280	23,239	1,717	
Less: Net debt	10	794	59	
Equity Value	270	22,445	1,659	
Bear Case				
O2C	49	4,030	298	GRM of US\$9.0x/bbl
E&P	13	1,109	82	Gas realization of US\$ 8/mmbtu
RJIO	64	5,331	394	ARPU at Rs 225
Retail	80	6,624	490	EBITDA margin at 6.0%
New - Green Energy	7	567	42	EBITDA margin at 9%
EV	213	17,662	1,305	
Less: Net debt	10	794	59	
Equity Value	203	16,868	1,247	

Exhibit 2: Case Scenarios

	Bear	Base	Bull
O2C	298	333	381
E&P	82	106	130
RJIO	394	442	482
Retail	490	613	654
New - Green Energy	42	64	70
EV	1,305	1,559	1,717
Less: Net debt	59	59	59
Equity Value	1,247	1,500	1,659
Upside %	-1%	19%	31%
CMP	1,264		

VIEW & VALUATION

BUY with a TP of Rs 1500/sh.

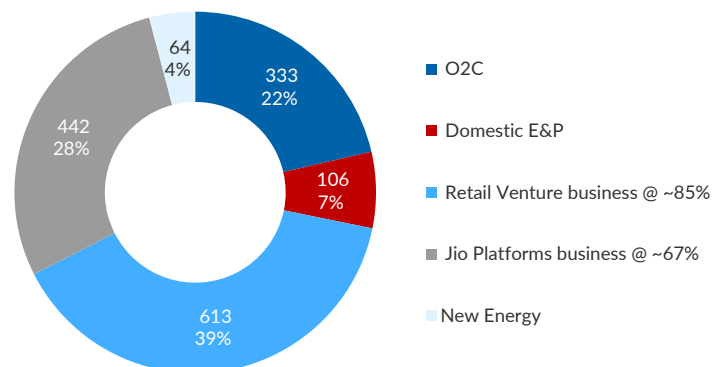
We recommend a BUY rating on RIL with a TP of Rs 1,500/sh. Expectation of elevated capex levels due to the ongoing 5G rollout, planned petrochemical capacity expansion, and planned foray into renewable energy and acquisitions in retail. However, in the longer run, investments in petrochemical and renewable capacities, along with the 5G rollout, Retail growth, New energy contribution have the potential to drive revenue growth.

Our target price is premised upon an operating earnings CAGR of ~12% over FY24-27e where O2C and upstream contribution to EBITDA is ~38%, rest would come from consumer biz, Digital/Retail in FY27. We place a BUY rating on the stock on SOTP basis at a TP of Rs 1,500/share. The O2C contributes Rs333, upstream Rs106, and Jio platforms and Retail at Rs 442/613. New Energy piece adds Rs64 and a reduction of Rs59 of Net debt.

Exhibit 3: Valuation Table

SOTP	EBITDA (Rs bn)	Multiple	EV (Rs bn)	EV (USD bn)	Rs/Share	Comments
OIL AND GAS BUSINESS (EV)						
O2C	578	7.8	4,512	54.4	333	Global Multiple at 7.8x
Domestic E&P	261	5.5	1,435	17.3	106	At 6x EBITDA
EV OF OIL TO CHEMICALS (O2C)			4,512	54.4	333	
EV OF STANDALONE BUSINESS			5,947	71.6	439	
CONSUMER BUSINESS (EV)						
Retail Venture business @ ~85%	375	26.0	8,296	100.0	613	DMART at 32x EBITDA
Jio Platforms business @ ~67%	893	10.0	5,983	72.1	442	Bharti Airtel at 11x EBITDA
EV OF CONSUMER BUSINESS			14,279	172	1,055	
New Energy			866	10.4	64	
TOTAL EV OF BUSINESS			21,092	254	1,559	
Total Debt			3,496	42.1	258	
Cash and Current Investments			2,702	32.6	200	
NET DEBT			794	9.6	59	
FAIR VALUE			20,298	245	1,500	

Exhibit 4: SOTP Mix



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	7,887,430	8,913,110	9,144,720	11,606,324	12,285,522	13,249,167
Total Expense	6,091,890	7,491,490	7,522,390	9,754,205	10,297,681	11,065,599
Operating Profit	1,795,540	1,421,620	1,622,330	1,852,119	1,987,841	2,183,568
Other Income	149,430	117,340	160,570	163,781	167,057	170,398
Depreciation	297,820	403,030	508,320	494,317	557,407	627,824
EBIT	1,647,150	1,135,930	1,274,580	1,521,583	1,597,491	1,726,143
Interest	145,840	195,710	231,180	241,616	241,616	241,616
Extraordinary Item	28,360	4,180	-	-	-	-
share of profit/loss of Associates and JVs	2,950	240	3,870	2,500	2,500	2,500
PBT	1,532,620	944,640	1,047,270	1,282,467	1,358,375	1,487,026
Tax	159,700	203,760	257,070	319,992	338,969	371,132
PAT	1,372,920	740,880	790,200	962,475	1,019,406	1,115,895
Adj. PAT	1,372,920	740,880	790,200	962,475	1,019,406	1,115,895
Eps	101.5	54.8	58.4	71.1	75.3	82.5

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	67,650	67,660	67,660	67,660	67,660	67,660
Reserves	8,822,190	8,221,150	9,190,220	10,075,268	11,021,801	12,066,769
Net worth	8,889,840	8,288,810	9,257,880	10,142,928	11,089,461	12,134,429
Debt	2,819,740	3,343,920	3,461,420	3,461,420	3,461,420	3,461,420
Deferred tax liab (net)	857,850	1,731,710	1,805,130	1,805,130	1,805,130	1,805,130
Capital Employed	12,567,430	13,364,440	14,524,430	15,409,478	16,356,011	17,400,979
Fixed assets	7,872,950	10,032,870	11,038,510	11,851,814	12,608,064	13,300,235
Investments	3,942,640	2,355,600	2,256,720	2,256,720	2,256,720	2,256,720
Net working capital	751,840	975,970	1,229,200	1,300,943	1,491,227	1,844,024
Inventories	1,077,780	1,400,080	1,527,700	1,907,889	2,019,538	2,177,945
Sundry debtors	236,400	284,480	316,280	401,417	437,567	471,888
Cash & Bank Balance	361,780	686,640	972,250	1,127,625	1,297,690	1,640,549
Other current assets	1,494,670	1,314,640	1,448,400	1,199,370	1,199,370	1,199,370
Sundry creditors	1,593,300	1,471,720	1,783,770	2,083,698	2,211,277	2,394,069
Other liabilities	825,490	1,238,150	1,251,660	1,251,660	1,251,660	1,251,660
Application of Funds	12,567,430	13,364,440	14,524,430	15,409,478	16,356,011	17,400,979

Exhibit 7: Cash flow statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT	841,420	948,010	1,047,270	1,282,467	1,358,375	1,487,026
Add: Depreciation & amortization	297,970	403,190	508,320	494,317	557,407	627,824
Add: Interest expense	145,840	195,710	231,180	241,616	241,616	241,616
Less: Interest/Dividend Income Received	(125,700)	(112,780)	(108,340)	-	-	-
(Inc)/Dec in working capital	7,250	(196,340)	63,660	83,632	(20,220)	(9,937)
Tax paid	(37,970)	(62,970)	(119,610)	(319,992)	(338,969)	(371,132)
Other operating Cash Flow	(22,270)	(24,500)	(34,600)	-	-	-
Cash flow from operating activities	1,106,540	1,150,320	1,587,880	1,782,040	1,798,210	1,975,398
Capital expenditure	(1,001,450)	(1,409,880)	(1,528,830)	(1,307,621)	(1,313,657)	(1,319,995)
Add: Interest/Dividend Income Received	59,520	111,230	107,230	-	-	-
Inc/(Dec) in investments	(159,100)	386,300	278,590	-	-	-
Cash flow from investing activities	(1,101,030)	(912,350)	(1,143,010)	(1,307,621)	(1,313,657)	(1,319,995)
Inc/(Dec) in share capital	402,170	5,190	209,220	-	-	-
Inc/(Dec) in debt	77,180	366,690	56,940	-	-	-
Interest Paid	(263,490)	(216,500)	(371,730)	(241,616)	(241,616)	(241,616)
Dividend Paid	(42,970)	(50,830)	(60,890)	(77,428)	(72,872)	(70,927)
Others	-	-	-	-	-	-
Cash flow from financing activities	172,890	104,550	(166,460)	(319,044)	(314,489)	(312,543)
Net cash flow	178,400	342,520	278,410	155,375	170,064	342,860

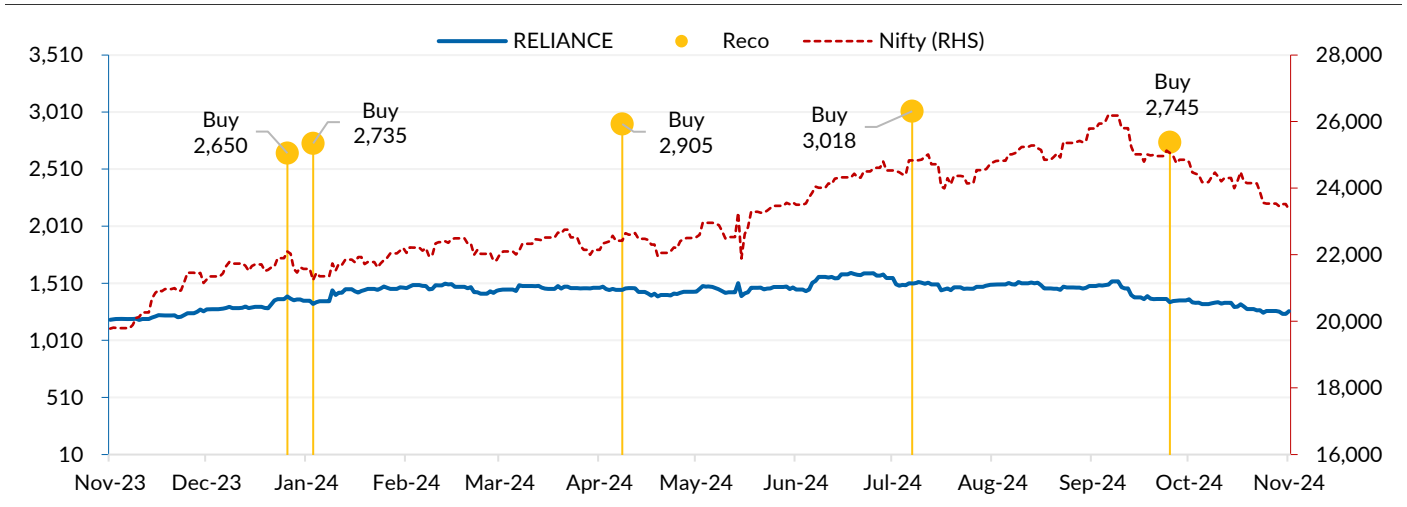
Exhibit 8: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.9	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	0.9	0.8	0.8	0.8	0.9	0.9
EBIT margin (x)	0.2	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	0.6	0.6	0.5	0.6	0.6	0.6
Financial leverage (x)	1.7	1.8	1.9	1.9	1.8	1.8
RoE (%)	16.3	8.6	9.0	9.9	9.6	9.6

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)						
Revenue growth	62.2	13.0	2.6	26.9	5.9	7.8
Op profit growth	122.4	(20.8)	14.1	14.2	7.3	9.8
EBIT growth	133.7	(31.0)	12.2	19.4	5.0	8.1
Net profit growth	155.5	(46.0)	6.7	21.8	5.9	9.5
Profitability ratios (%)						
OPM	22.8	15.9	17.7	16.0	16.2	16.5
EBIT margin	20.9	12.7	13.9	13.1	13.0	13.0
Net profit margin	17.4	8.3	8.6	8.3	8.3	8.4
RoCE	14.1	8.8	9.1	10.2	10.1	10.2
RoE	16.3	8.6	9.0	9.9	9.6	9.6
RoA	9.7	4.8	4.7	5.3	5.3	5.5
Per share ratios						
EPS	101.5	54.8	58.4	71.1	75.3	82.5
Dividend per share	8.0	9.0	9.0	5.7	5.4	5.2
Cash EPS	123.5	84.5	96.0	107.7	116.5	128.9
Book value per share	656.9	612.5	684.1	749.6	819.5	896.7
Valuation ratios						
P/E	25.8	40.7	21.6	17.8	16.8	15.3
P/CEPS	21.2	26.3	13.2	11.7	10.8	9.8
P/B	4.0	3.6	1.8	1.7	1.5	1.4
EV/EBIDTA	6.3	7.7	7.2	6.7	6.7	6.4
Payout (%)						
Dividend payout	26.3	24.7	26.3	13.8	13.8	13.6
Tax payout	10.4	21.6	24.5	25.0	25.0	25.0
Liquidity ratios						
Debtor days	10.9	11.6	12.6	12.6	13.0	13.0
Inventory days	56.8	60.4	71.0	64.3	69.6	69.2
Creditor days	80.4	74.7	79.0	72.4	76.1	76.0

Recommendation Tracker



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Analyst signature

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