SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix
Institutional Equities

Reliance Industries

21 February 2023

The mammoth is massively expanding

INITIATING COVERAGE

Sector: Oil & Gas	**Rating: BUY**
CMP: Rs 2,415	**Target Price: Rs 2,825**

Stock Info

Sensex/Nifty	60,692/17,845
Bloomberg	RIL IN
Equity shares	6,766mn
52-wk High/Low	Rs 2,819/2,237
Face value	Rs 10
M-Cap	Rs 16,360bn/ USD 199bn
3-m Avg volume	5.7mn

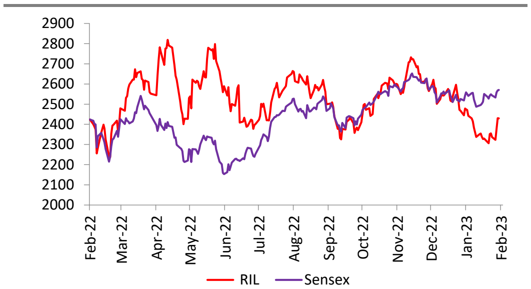
Financial Snapshot (Rs bn)

Y/E Mar	FY23E	FY24E	FY25E
Sales	10,037	10,555	10,911
EBITDA	1,410	1,628	1,802
PAT	654	752	836
EPS (Rs)	97	111	124
PE (x)	25	22	20
EV/EBITDA (x)	13	11	10
RoE (%)	8	8	8
RoCE (%)	8	8	9
Dividend yield(%)	0	1	1

Shareholding pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	50.0	51.0	51.0
–Pledged	-	-	-
FII	23.5	23.6	23.9
DII	15.3	15.0	14.7
Others	10.7	10.9	10.8

Stock Performance (1-year)



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We initiate coverage on Reliance Industries (RIL) with a BUY rating, and a target price (TP) of Rs 2,825. We forecast modest 13% CAGR in EBITDA over FY23E-FY25E, largely led by Retail and Jio. Robust 22% EBITDA growth in the consumer business would continue, in our view, primarily led by 23% growth in telecom and 19% in retail during this period. We expect strong petrochemical (petchem) margins to more than offset its lower GRM, and forecast 3% CAGR in Oil-to-Chemicals (O2C) EBITDA. While the upstream business may benefit with 58% higher volumes FY24E onwards, lower realisations could limit EBITDA growth in this business to 7%. Net debt could surge (from 1.2tr in FY22 to 1.8tr in FY25E) on enhanced capex in petrochemicals, 5G, organised retail, energy transition and new energy businesses. RIL has underperformed NIFTY by 3.8% in last one year, with the stock price hovering at Rs 2,300-Rs 2,800 levels. RIL's option value could rise, once its new energy business nears commencement. Mobile tariff hike, listing of retail and Jio and monetisation of O2C and RIL Syngas are a few key upside triggers.

Sharp expansion to yield robust 23% CAGR in retail EBITDA over FY22-FY25E: We estimate RIL's retail business to post CAGR of 86% in revenue and 23% in EBITDA over FY22-25E, underpinned by a) robust store additions in last couple of years (RIL added 4,400 stores of cumulative 25.7mn sq ft in last six quarters), b) deeper online penetration (~18% of sales currently), and c) likely improving footfalls (>200mn footfalls/ quarter).

Tariff hike likely in FY25; Non mobility to drive growth: We believe solid growth in RIL's non-mobility business and a likely 10% tariff hike in FY25E, would drive robust 24% CAGR in its EBITDA over FY22-25E to Rs 719 bn. We forecast ARPU of Rs 183/Rs 204 for FY24E/FY25E, respectively, vs Rs 178 in FY23E, and expect FTTH to add 4mn households every year with, 20mn of wireless subscriber additions each in FY24E and FY25E.

Petrochemicals to offset the lower profits from refining, albeit higher volumes may offset lower prices in upstream: Ease of supply but modest demand growth could cause the GRM to slip from its existing level. However, opening up of China could bring cheer to petrochemical margins, which at the moment linger at the lowest end of their cycle. Net-net, we expect O2C EBITDA to expand at 3% CAGR over FY23E-FY25E.

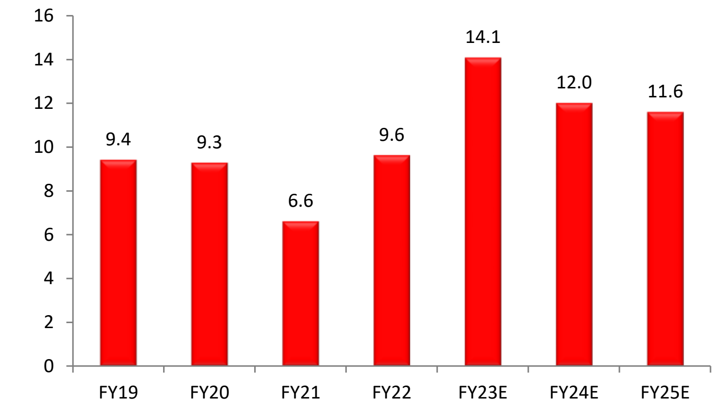
Debt may rise on higher capex, but D/E to stay low: Capex may remain elevated over next few years, as RIL expects to invest a) USD 9bn towards petchem expansion, b) USD 10bn on new energy, c) Rs 880bn on 5G spectrum (to be paid in 20 annual installments), d) in 5G roll out, and e) regular capex in all segments. Overall, we forecast capex of Rs 1.4/Rs 1.3/Rs 1.4trn during FY23E/FY24E/FY25E, respectively. This may elevate RIL's net debt to Rs 1.8trn by FY25E from Rs 1.4trn in FY23E. Yet, EBITDA/net debt would remain comfortable at 1x, with net debt to equity at 0.2x. Further, as RIL is committed to becoming a net carbon zero company by 2050, it may attract higher capex in future.

Initiate coverage with BUY and TP of Rs 2,825: On our SOTP-based valuation, we arrive at a TP of Rs 2,825 for RIL. We have assigned 8.5x FY25E EV/EBITDA to its O2C business (Rs 783/share), ascribing it a 10% premium to global players, considering its complexity and ability to generate superior margins due to higher integration levels. Further, we have valued organised retail at 32x and its digital services business at 13x EV/EBITDA, to arrive at a valuation of Rs 1,170 and Rs 918/ share, respectively. Further, we have valued the upstream business at Rs 84/share on DCF, based on a 10% discounting rate. Plus, at 1x EV/sales for its other businesses, we arrive at a TP of Rs 2,825 for RIL. Although we have currently not assigned any value to its New Energy business, at option value, based on global peers it could become an investment of 1.5x-2x, i.e., ~Rs 180-Rs 240 per share. We initiate coverage with a **BUY** rating.

Investors are advised to refer disclosures made at the end of the research report.

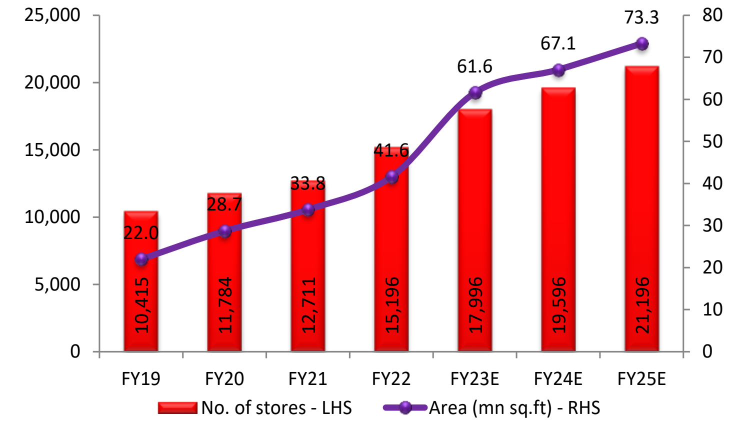
Story in Charts

Exhibit 1: RIL GRM (USD/bbl)



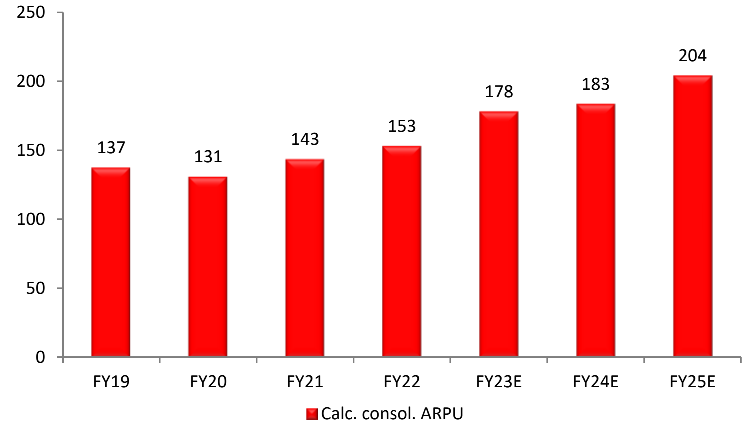
Source: Company data, Systematix Institutional Research

Exhibit 2: Sharp increase in number of stores and retail area



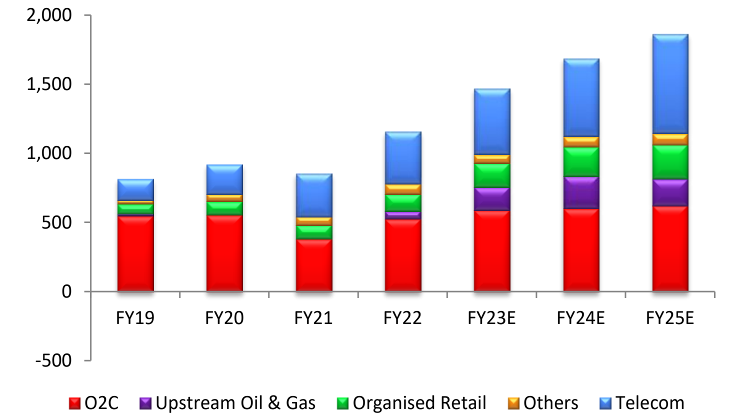
Source: Bloomberg, Systematix Institutional Research

Exhibit 3: 10% CAGR growth in consol. ARPU during FY22-FY25E



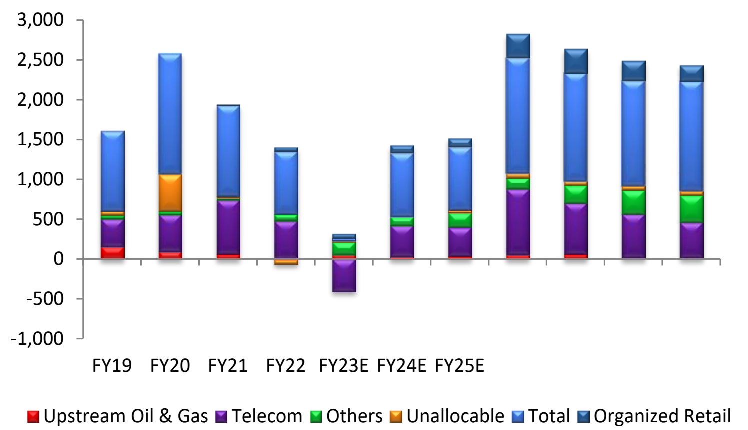
Source: Company data, Systematix Institutional Research

Exhibit 4: EBITDA: Retail + Jio to contribute 52% in FY25E (Rs bn)



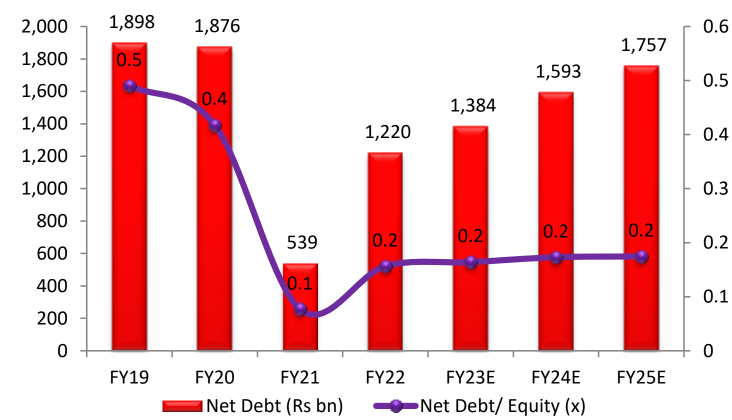
Source: Company, Systematix Institutional Research

Exhibit 5: Capex – Segmental split (Rs bn)



Source: Company, Systematix Institutional Research

Exhibit 6: Net Debt and Net D/E



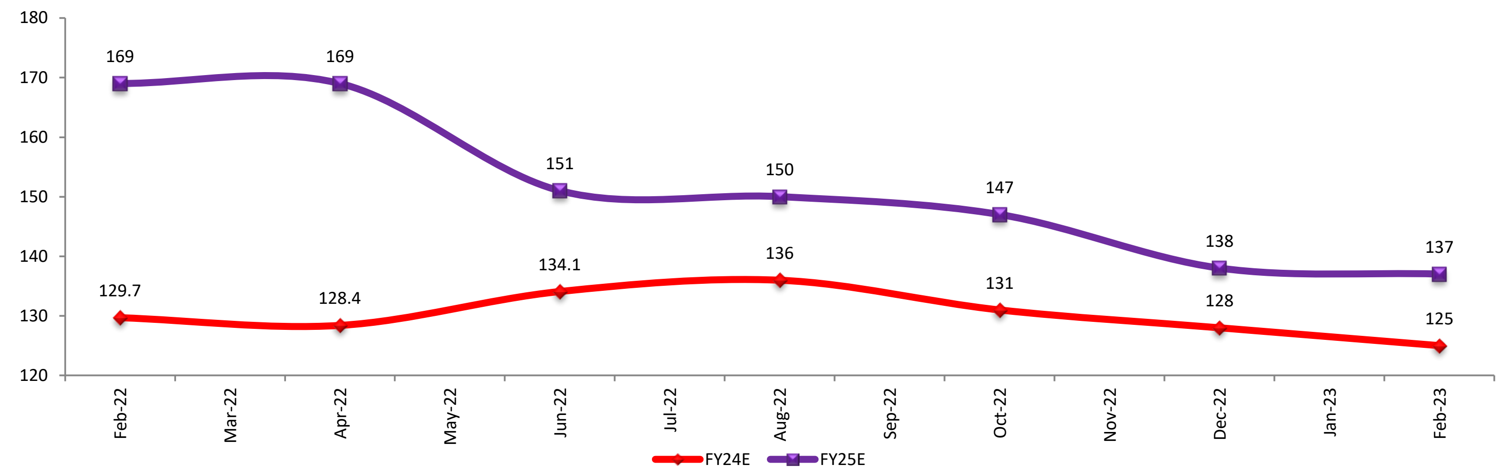
Source: Company data, Systematix Institutional Research

Exhibit 7: Global peer valuation: RIL has been commanding a premium to peers on efficiency and diversification to consumer businesses

Companies	Mkt Cap	P/E		EV/EBITDA		P/BV		RoE (%)	
	(USD mn)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Saudi Aramco	1,938,727	12.8	14.1	6.4	6.8	4.2	3.8	35.3	29.8
Exxon Mobil Corp	476,610	10.9	11.6	5.9	6.4	2.3	2.1	21.1	17.3
Chevron Corp	316,650	10.8	11.5	5.5	6.0	1.9	1.8	18.2	15.9
Total Energies SE	138,452	5.6	6.5	3.3	3.8	1.2	1.0	21.5	16.3
BP PLC	84,683	6.1	5.9	3.3	3.7	1.6	1.4	24.9	19.1
Marathon Petroleum Corp	59,290	6.9	10.1	4.6	6.1	1.9	1.8	27.1	17.5
Valero Energy Corp	51,649	6.1	8.6	4.3	5.8	1.9	1.7	33.3	19.7
ENEOS Holdings Inc	10,327	6.1	6.6	7.0	8.2	0.5	0.4	8.3	6.4
S-Oil Corp	7,329	5.9	6.7	4.8	5.2	1.0	0.9	18.5	14.5
Sinopec Shanghai Petchem	4,076	8.5	6.9	6.8	5.9	0.4	0.4	5.1	6.6
Thai Oil PCL	3,664	9.4	9.0	9.5	9.7	0.8	0.7	8.4	7.9
GS Holdings Corp	3,063	2.1	2.2	4.6	4.9	0.3	0.3	13.0	11.3
GS Holdings Corp	3,063	2.1	2.2	4.6	4.9	0.3	0.3	13.0	11.3
Average		**7.2**	**7.8**	**5.4**	**5.9**	**1.4**	**1.3**	**19.1**	**14.9**
RIL	**199,396**	**21.7**	**19.5**	**11.0**	**10.0**	**1.8**	**1.6**	**8.2**	**8.3**

Source: Bloomberg, Systematix Institutional Research

Exhibit 8: Change in RIL's consensus EPS estimates over the past one year (Cut of 4% for FY24E and 19% for FY25E)



Source: Bloomberg, Systematix Institutional Research

Exhibit 9: Stock returns during different time periods

Name	% Price Change Week	% Price Change Month	% Price Change 3 Months	% Price Change 6 Months	% Price Change 1 Yr	% Price Change YTD	% Price Change 2 Yr	% Price Change 5 Yr	% Price Change 10 Yr
Gail India	0.2	(1.5)	6.5	6.7	3.0	(0.1)	7.1	(18.0)	53.1
Gujarat Gas	1.0	8.2	(2.6)	(2.1)	(26.2)	(0.2)	9.2	182.7	275.6
Petronet LNG	(1.7)	(0.5)	5.3	4.8	4.4	1.5	(9.0)	(11.9)	188.7
Indraprastha Gas	(2.2)	3.3	4.9	0.6	13.6	4.4	(20.7)	46.5	718.0
Gujarat State Petronet	3.7	0.1	15.3	12.8	(4.5)	4.5	15.0	38.9	276.5
Mahanagar Gas	(1.6)	3.8	0.9	(2.1)	14.3	5.8	(22.9)	(13.1)	110.7
Reliance Industries	**4.4**	**(1.6)**	**(6.1)**	**(8.4)**	**(0.1)**	**(4.2)**	**17.1**	**167.4**	**480.7**
S&P BSE Oil & Gas	**0.4**	**(15.1)**	**(11.5)**	**(12.5)**	**(3.6)**	**(13.6)**	**17.8**	**13.5**	**95.6**
NSE Nifty 50 Index	**0.5**	**(0.6)**	**(2.2)**	**(0.0)**	**3.7**	**(0.9)**	**18.0**	**71.7**	**202.1**

Source: Bloomberg, Systematix Institutional Research

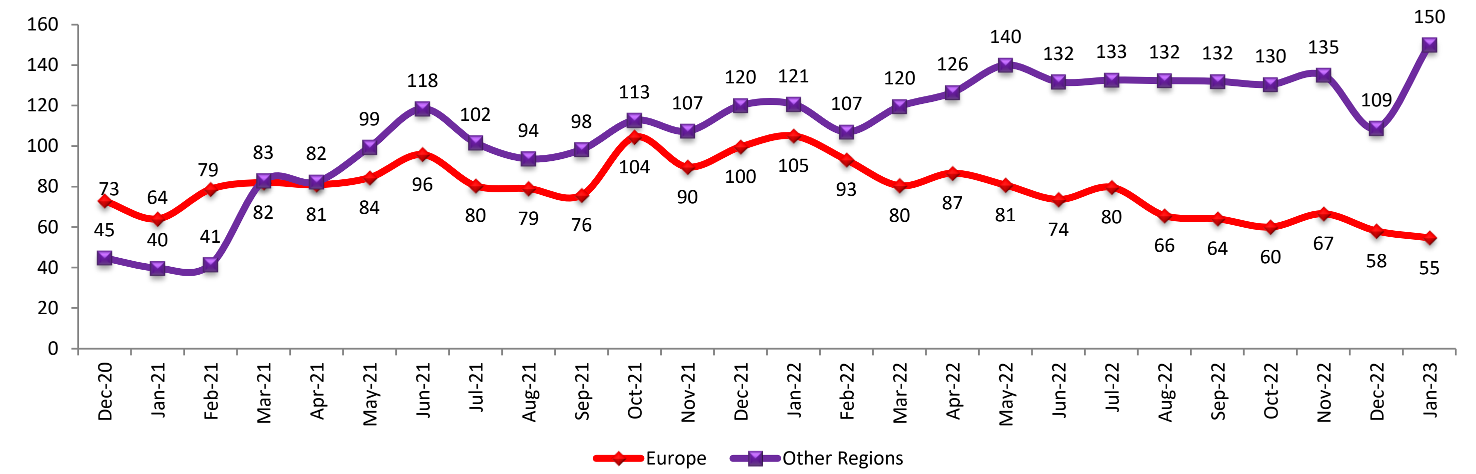
O2C: Petrochemical profits to reverse it's trend while GRM to dip in near term

Sharp fluctuations in GRM and petrochemical margins have caused huge margin volatility in RIL's O2C business over the last few quarters. Europe's complete ban on Russian petroleum products from Feb'23 could keep GRMs strong, primarily for diesel cracks. But, increased China quota coupled with subdued global demand growth could put pressure on refining margins. We expect GRM to normalize in 2023 compared to significantly higher levels in 2022. Further, petrochemical margin, a laggard due to global slowdown and China lockdown, could see a reversal in FY24 with the re-opening of China, as nearly 40% of petrochemical gets consumed in China.

Europe's ban on Russian products to support cracks

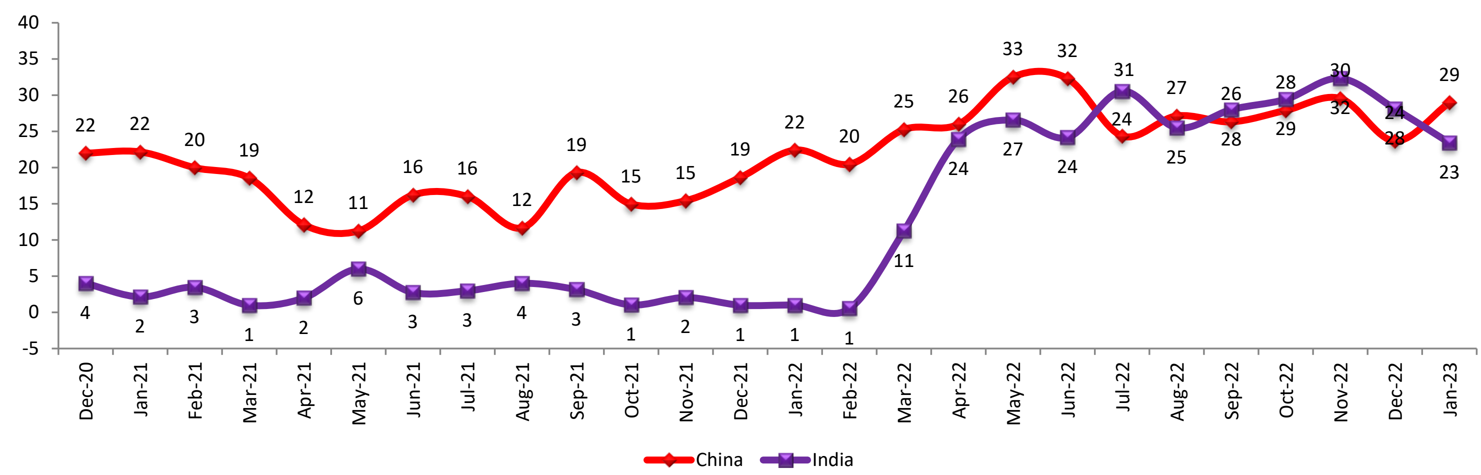
Europe has completely ban Russian petroleum products from Feb'23, which could keep petroleum product cracks, primarily diesel up. In recent months, Russia was exporting nearly 500-600kbpd of diesel to Europe, but with the ban, we expect Europe to fulfil its needs from Asian countries, which may keep diesel spread at higher levels.

Exhibit 10: Russian export of crude oil/oil products to Europe and other regions



Source: Bloomberg, Systematix Institutional Research

Exhibit 11: Russian export of crude oil/oil products to China and India

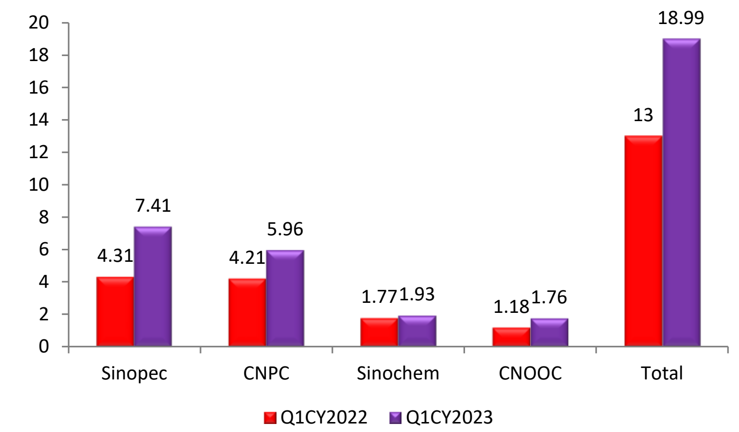


Source: Bloomberg, Systematix Institutional Research

China increased export quota; key headwind to margin

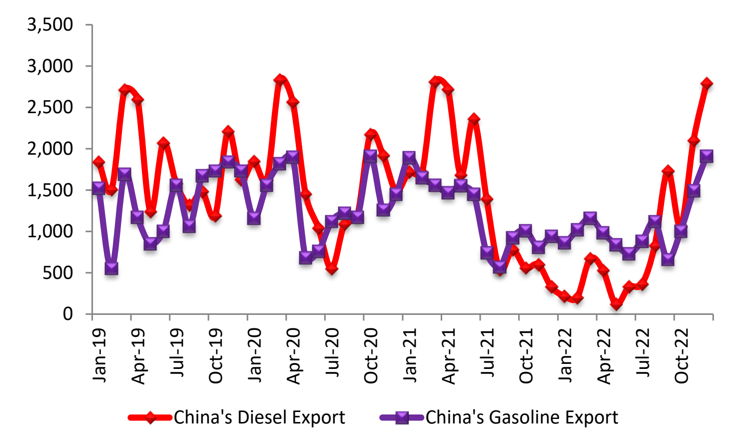
China recently increased its fuel export quota for the first batch of 2023 by nearly 46% vs first batch of 2022. The Chinese government has approved the export of 19mmt of gasoline, diesel and fuel oil vs 13mmt same period last year. They have also released the export quota of 8mmt low sulphur fuel oil vs 6.5mmt allowed last year. This is likely to improve Chinese refinery run rate, which was a laggard in last couple of years. Increased output would fill the vacuum created by Europe. GRM may see a downward pressure owing to higher product supply.

Exhibit 12: Sharp increase in China clean fuel export quota



Source: SP Global, Systematix Institutional Research

Exhibit 13: Chinese diesel and gasoline exports see an uptick

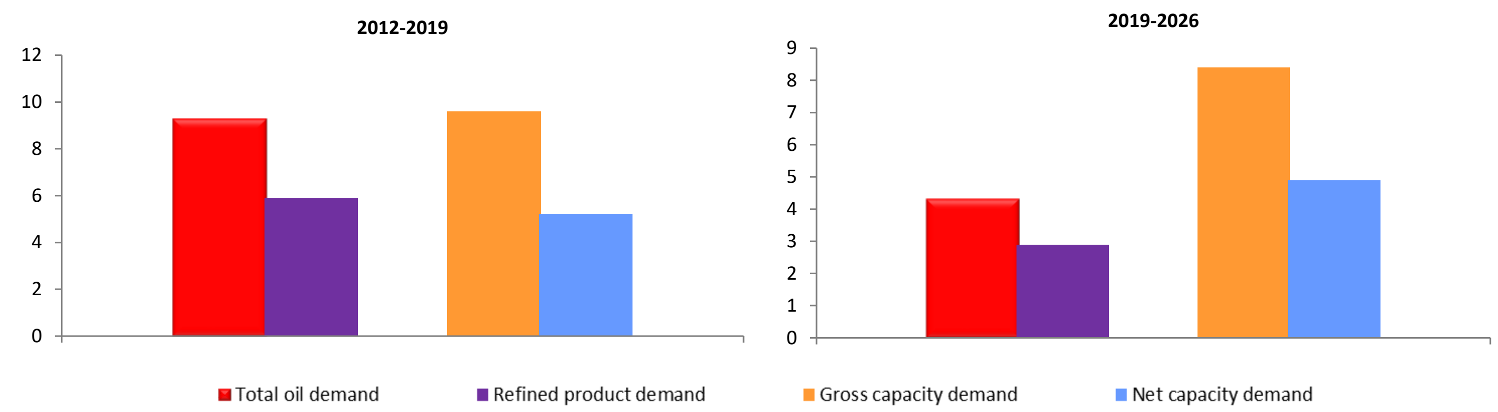


Source: Bloomberg, Systematix Institutional Research

New refining capacity likely in line with incremental demand, though focus on green energy may keep the addition low

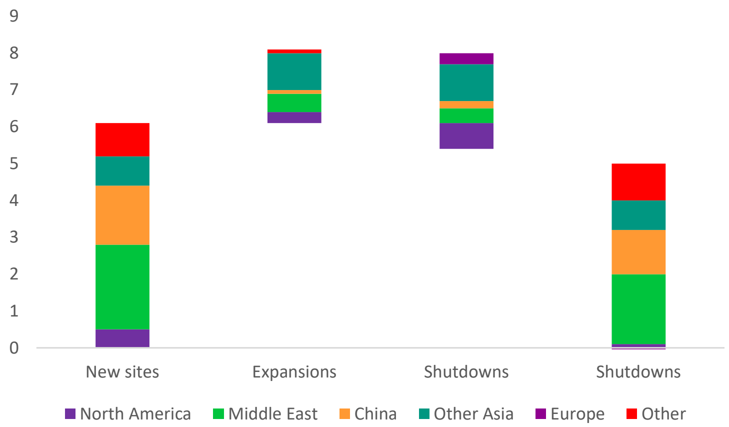
As per International Energy Agency (IEA), the demand for crude oil is expected to rise by 1.9mbpd in 2023 to a record 101.7 mbpd. Nearly 50% this growth banks on China, following the lifting on COVID restrictions. At the same time, new refinery capacity is slated to increase by 2.2mbpd between 4QFY22 and 2023. Refinery run rate is expected to remain strong in 2023, given reduced petroleum products from Russia. We forecast RIL's GRM to drop to USD12/11.6 per bbl for FY24E/FY25E from USD14.1/bbl in FY23E.

Exhibit 14: Net capacity additions (mbpd)



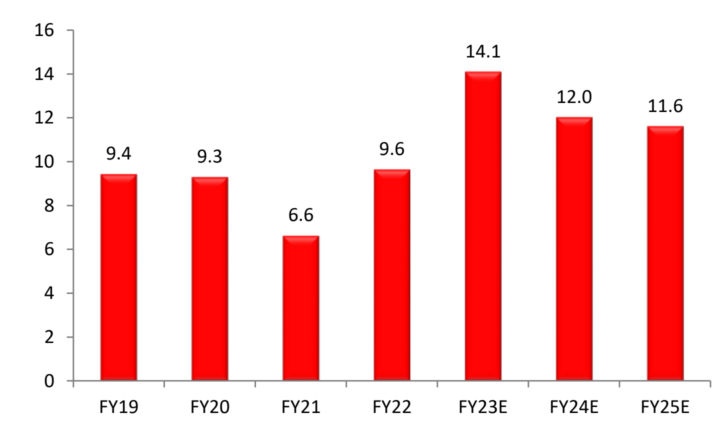
Source: Industry, Systematix Institutional Research

Exhibit 15: Refinery capacity changes 2020-26 (mbpd)



Source: IEA; Note: Capacity changes include only announced shutdowns for 2020-2026

Exhibit 16: RIL GRM (USD/bbl)

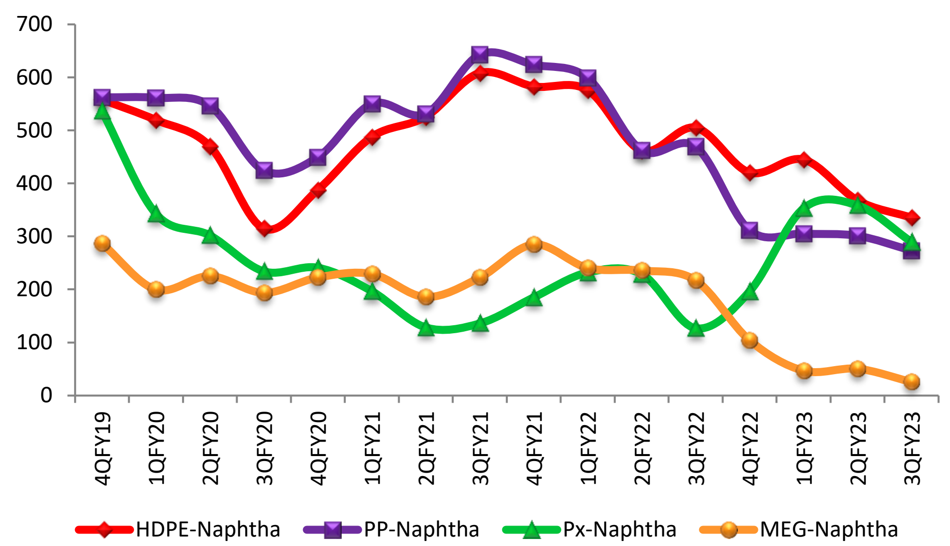


Source: Company data, Systematix Institutional Research

Petrochemicals: China's re-opening spells hope for petrochemical margin expansion, amid fears of recession in major economies

Weak demand from China and fear of global recession led to petrochemical margins contracting sharply across the value chain. China, which consumes more than one-third of the petrochemicals globally, is now giving positive signals on its economy re-opening, which could bring some fortune to petrochemical margins in FY24.

Exhibit 17: Petrochemical margins in last 5 years



Source: Bloomberg, Systematix Institutional Research

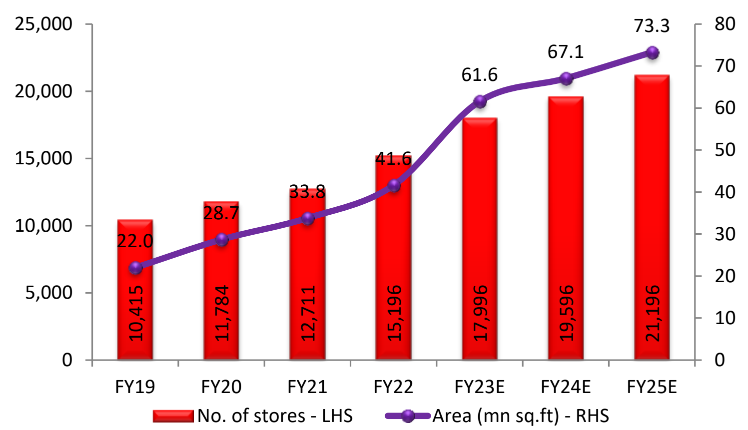
Significant addition in PE capacity; PP capacity addition to remain low

Nearly 20mmtpa of polyethylene (PE) capacity is expected to be added during CY22-25E, nearly 15% of the global capacity. However, the pace of capacity addition in polypropylene (PP) may be lower during the period at mere 13mmtpa, similar to that seen in the previous three years. We expect RIL's profit from petrochemicals to improve sharply FY24 onwards on the back of improved margins and volume.

Reliance Retail: Strong store additions, online penetration and increased footfalls to boost growth

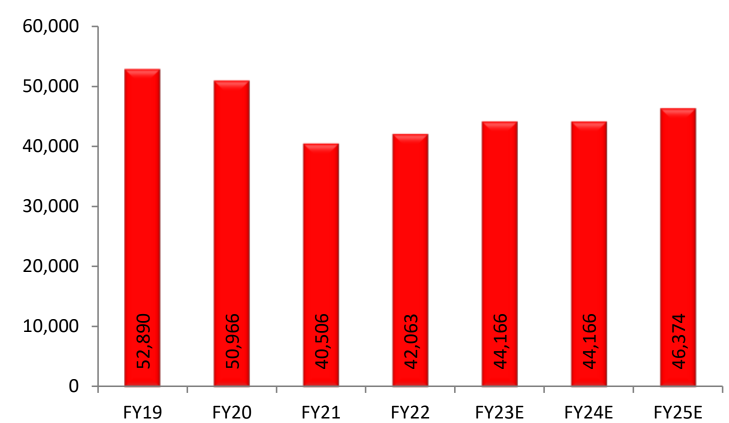
At its recent annual general meeting (AGM), management shared its vision to triple its retail business over the next 3-5 years, banking on wider reach, enhanced product range and deeper online penetration. India's retail industry expanded at 10% CAGR to Rs 62.4trn over FY15-20, and India Brand Equity Foundation (IBEF)estimates it to post 6-7% CAGR to USD1.5 trn by 2030. Reliance Retail recorded a whopping 42.7% CAGR in revenue over FY17-22, with 60% CAGR in EBITDA during this period. But, growth slowed to 15% in last three years, largely impacted by COVID. Strong store additions, deeper penetration have led RIL Retail to significantly outperform peers in almost all segments, given its robust product portfolio, pan-India presence and strong footfalls. Total number of stores grew to 17,225 as at end 3QFY23 from 3,616 in FY17. Total area also increased to 60.2mn sq ft from 13.5mn sq ft in FY17. We expect a) RIL's omnichannel presence in major verticals like Reliance Digital, Fashion & Lifestyle and grocery segment, b) scaling up of the Jio platform, and c) deeper penetration of JioMart to accelerate growth. We estimate Reliance Retail's revenue and EBITDA CAGR at 23% and 27%, respectively, over FY22-25E.

Exhibit 18: Sharp increase in number of stores and retail area



Source: Company data, Systematix Institutional Research

Exhibit 19: RIL Retail - Revenue/sq. ft (Rs)

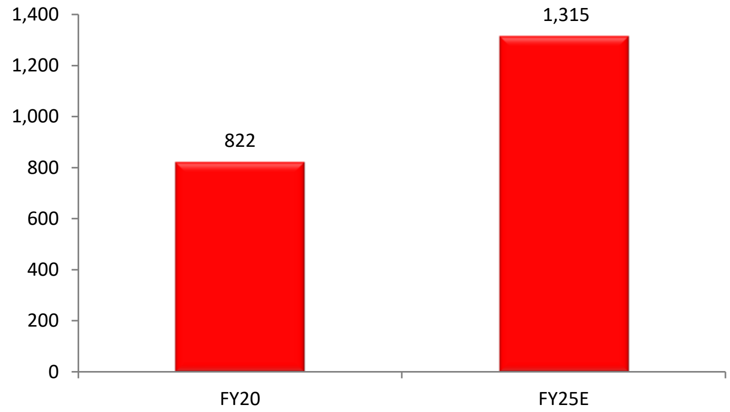


Source: Company data, Systematix Institutional Research

Online contribution and cost control to strengthen margins

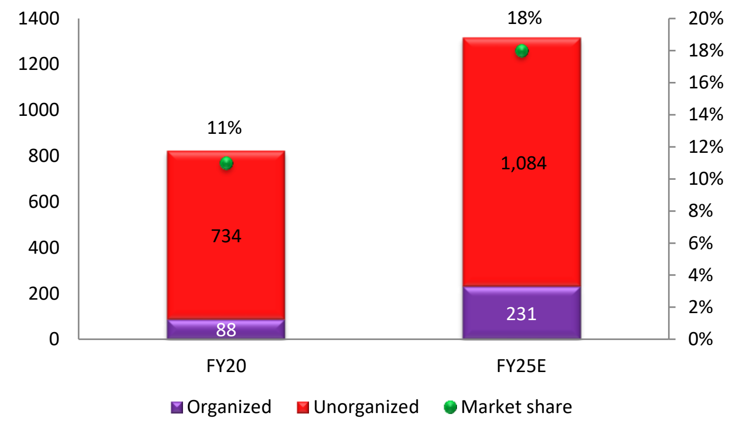
RIL recently declared that contributions from its digital and new commerce businesses touched 18% at the end of 3QFY23. We believe the digital business would continue to register growth, supported by factors such as ease of trade, discounts and increased presence of smartphones and internet. Extra pandemic-related costs caused a major drag in Retail margins in FY22. However, there was an uptick in core business margin in 9MFY23 to 7.6% compared with 6.2% in 9MFY22.We expect margins to accentuate on increased online retail sales, slower growth in new retail outlets, higher footfalls and increased same store sales growth. We thus forecast EBITDA margin of 7.7%/7.8% for FY23E/FY24E vs 7.65% in FY23.

Exhibit 20: India retail industry size (USD bn)



Source: Company

Exhibit 21: Organised vs unorganised market (USD bn)



Source: Company

Exhibit 22: RIL Retail assumptions

	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Stores	10,415	11,784	12,711	15,196	17,996	19,596	21,196
Area (mn.sq.ft)	22.0	28.7	33.8	41.6	61.6	67.1	73.3
Revenue/sq.ft (Rs.)	52,890	50,966	40,506	42,063	44,166	44,166	46,374
Revenues (Rs.bn)	5,692	5,975	4,669	7,000	10,037	10,555	10,911
Growth	45%	5%	-22%	50%	43%	5%	3%
EBITDA (Rs.bn)	841.7	890.1	807.4	1,104.6	1,409.6	1,628.4	1,802.3
EBITDA Margin	14.8%	14.9%	17.3%	15.8%	14.0%	15.4%	16.5%
Depreciation	209.3	222.0	265.7	298.0	376.8	414.9	444.0
EBIT	632.3	668.1	541.7	806.6	1032.8	1213.5	1358.3

Source: Company, Systematix Institutional Research

Exhibit 23: RIL's recent acquisitions – Primarily in the consumer and new energy businesses

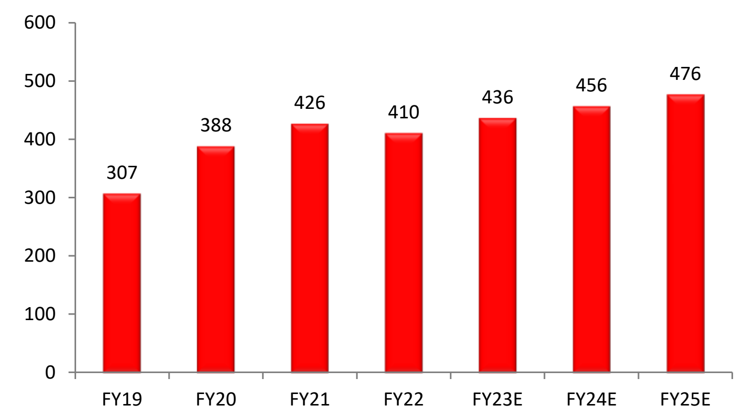
Date	Company bought	Nature of business	Country	% stake	Amount (Rs mn)
06-Jan-22	Dunzo	Quick commerce	India	25.8%	USD 200
08-Jan-22	Columbus Centre Corp (Cayman)	Mandarin Oriental super luxury hotel - Hospitality	NY, USA	100.0%	USD 98.15
04-Feb-22	Two Platforms Inc	Artificial Reality	USA	25.0%	USD 15
11-Feb-22	Altigreen	EV manufacturing	India	NA	USD 40
14-Feb-22	Glance	AI platform	Singapore	17.0%	USD 200
01-Mar-22	Abraham and Thakore Exports Pvt. Ltd.	Fashion designing brand	India	NA	NA
14-Mar-22	Lithium Werks	Li-iron-phosphate batteries	Netherland	100.0%	USD 61
20-Mar-22	Purple Panda Fashions Private Limited	Intimate wear category	India	89.0%	Rs 9,500
19-Apr-22	Abu Jani Sandeep Khosla	Couture brand	India	51.0%	NA
26-Apr-22	Abu Dhabi Chemicals Derivatives Company RSC Ltd (TA'ZIZ)	Chemical industry	Abu Dhabi	JV	NA
27-Apr-22	Bodhi Tree Systems	Media and entertainment sector	India	JV	Rs 16,450
01-Jun-22	Plastic Legno SPA	Toy manufacturing	India	40.0%	NA
05-Sep-22	SenseHawk	Solar Energy Generation	USA	Majority stake	USD 32mn
09-Sep-22	Shubhalakshmi Polyesters & Shubhalakshmi PolyTex Ltd	Polyester business	India	100.0%	INR 15,920
23-Sep-22	Caelux Corp, California, USA	Perovskite solar panel	USA	20.0%	USD 12mn
04-Oct-22	Sanmina Corporation	High technology infrastructure hardware	India	JV	NA
21-Oct-22	Jio Financial Services – Demerger	Financial Services	India	1:1 basis	NA
21-Oct-22	RIL to restructure group ESC resources	Engineering, procurement and construction	India	NA	NA
28-Oct-22	SkyTran Inc	Transport Technology	USA	62.83%	USD 15mn
15-Dec-22	Synchron Inc	Brain Computer Interface (BCI)	USA	2.3%	NA
22-Dec-22	Metro India	Cash & Carry Stores	India	100.0%	Rs 28,500
22-Dec-22	Reliance Infratel	Telecom	India	100.0%	Rs 37,250
22-Dec-22	Metro india	Cash & Carry Stores	India	100.0%	Rs 28,500
22-Dec-22	Reliance Infratel	Telecom	India	100.0%	Rs 37,250
22-Dec-22	Exyn Technologies	Early Stage Technology Co	USA	23.3%	USD 25mn
29-Dec-22	Lotus Chocolate Co	Chocolate food product Mfg	India	51%+26% (open offer)	Rs 740 +Rs 386mn
03-Jan-23	Sosyo Hajoori Beverages	Beverages	India	50.0%	JV

Source: Company Data, Systematix Institutional Research

Reliance Jio: Non-mobility subscriber base to grow faster

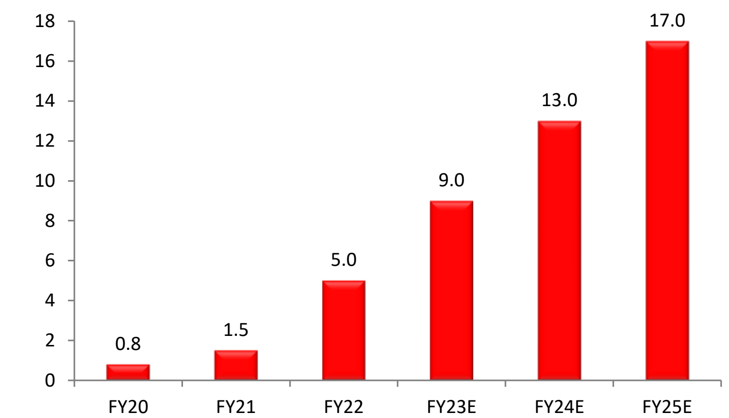
Just after five years of launch, Jio has become India's largest company in the wireless telecom space, with a subscriber base of ~433mn currently, growing at a whopping 26% CAGR since FY17. The company has garnered ~40% market share in terms of number of subscribers, but enjoys 50% share of data traffic in India. There has been a substantial drop in its wireless subscriber growth in the recent few quarters. We thus forecast net addition of 20mn subscribers for FY24E and F25E (<5% YoY) to touch ~480mn at the end of FY25E. However, RIL's fiber-to-the-home (FTTH) broadband business is growing at a rapid pace of nearly 75%, and is slated to reach ~9mn households by the end of FY23E. Even data usage is at ~300GB/month per household. We expect the robust growth to continue over next few years. Jio's enterprise broadband too is seeing good traction, and the company plans to expand to 50mn small and medium enterprises.

Exhibit 24: Telecom subscriber additions, mobility, broadband (mn)



Source: Company, Systematix Institutional Research

Exhibit 25: Broadband subscribers (mn)

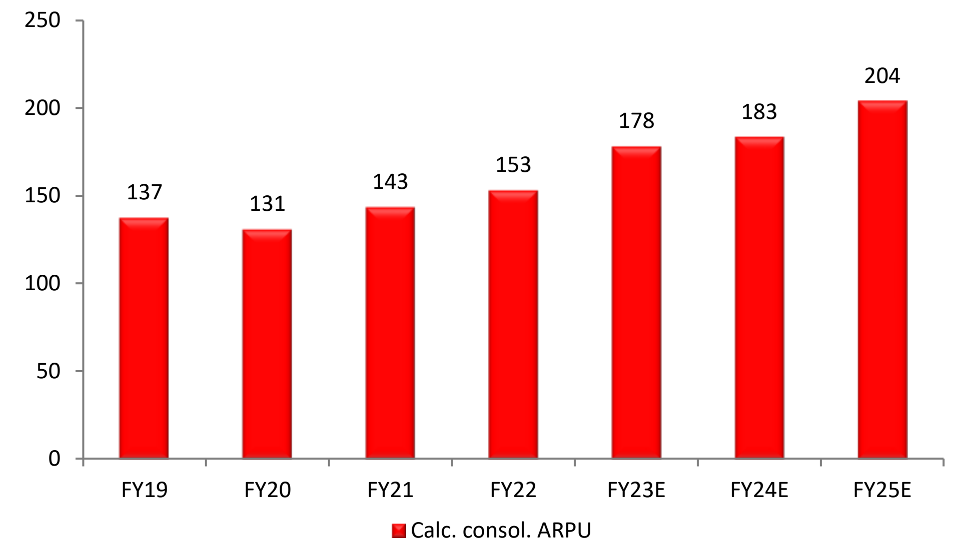


Source: Company, Systematix Institutional Research

Major tariff hike likely only in FY25E, but marginal changes and FTTH to improve ARPU modestly in FY24E; 23% EBITDA CAGR over FY23E-FY25E

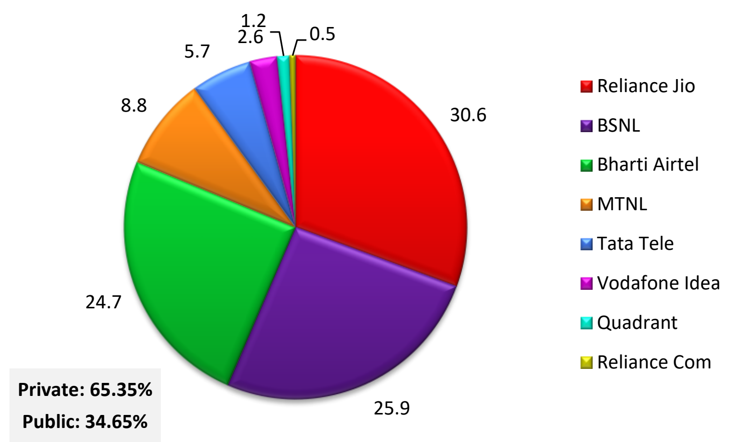
The company's reported ARPU climbed to ~Rs 178 in 3QFY23 from Rs 151.6 in 3QFY22 after the ~20% tariff hike implemented in Dec'21 and marginal changes thereafter. Further, enhanced contribution from JioFiber also boosted the ARPU. Though capex is again expected to move up, owing to 5G roll out, telcos would try to gain market share with lower tariffs and data incentives. We expect Jio to once again implement an aggressive strategy, and gain subscriber base without any tariff hike. The company plans to roll out 5G completely by the end of 2023, which would give it the opportunity to go for another round of tariff hike, only post 2024 elections. We have factored in 10% tariff hike in FY25E. With deeper penetration of the JioFiber and Enterprise business, we expect ARPU to head north, going forward. We have built in a rise in ARPU from Rs 178 in FY23E to Rs 183/Rs 204 in FY24E/FY25E.

Exhibit 26: 10% CAGR growth in consolidated ARPU during FY22-FY25E



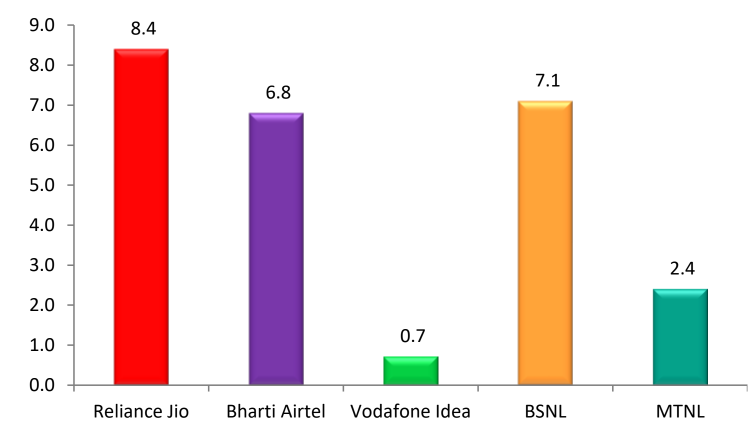
Source: Company, Systematix Institutional Research

Exhibit 27: Market share of Wireline subscribers as on Dec'22 (%)



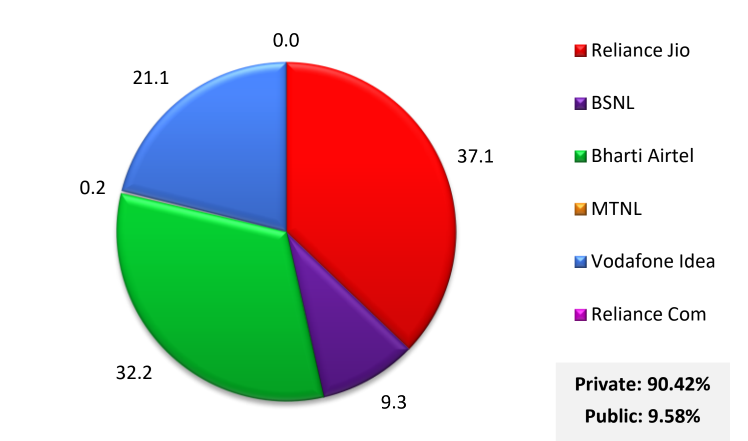
Source: TRAI, Systematix Institutional Research

Exhibit 28: Wireline subscribers base as on Dec'22 (mn)



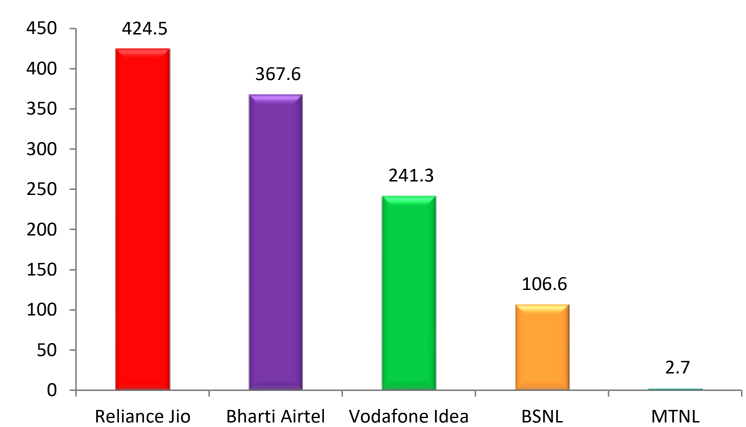
Source: TRAI, Systematix Institutional Research

Exhibit 29: Market share of wireless subscribers as on Dec'22 (%)



Source: TRAI, Systematix Institutional Research

Exhibit 30: Wireline subscribers base as on Dec'22 (mn)

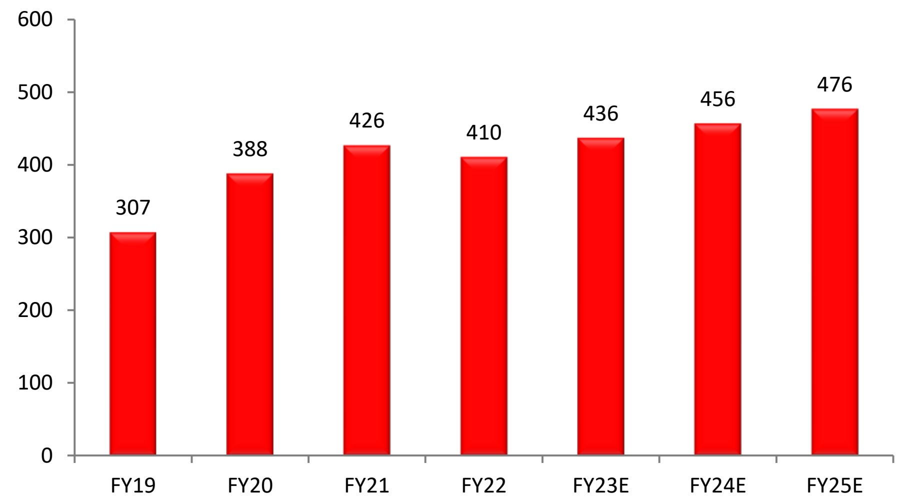


Source: TRAI, Systematix Institutional Research

5G: Higher capex to gain market share

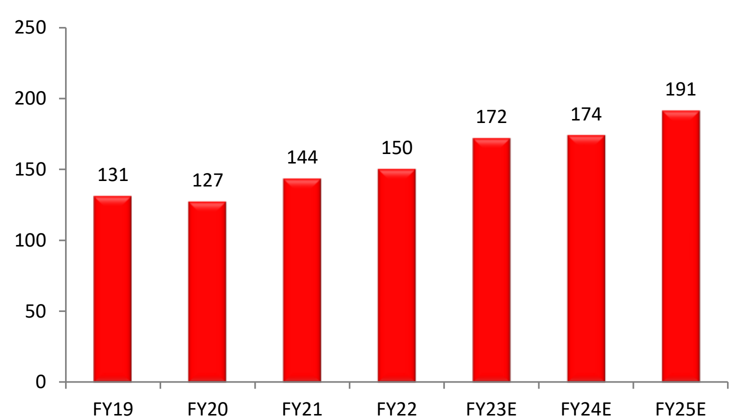
Jio has already rolled out 5G services to over 29 states and UTs and >225 cities within four months of its launch. 5G services are expected to deliver speed of up to 1gbps, and would be available at a plan starting from Rs 239. We expect capex to remain on the higher side for FY24E, likely followed by a reduction thereafter. Overall, faster 5G roll out should boost both, its market share and ARPU.

Exhibit 31: Total Jio subscribers (mn)



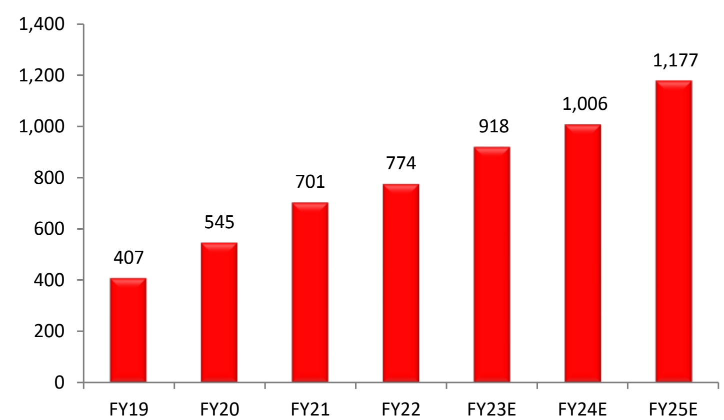
Source: Company, Systematix Institutional Research

Exhibit 32: Wireless ARPU to see strong 5.5% growth (FY19-25E; Rs)



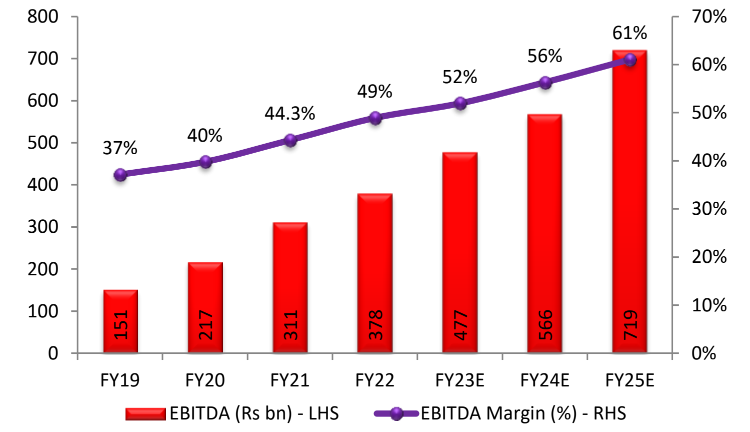
Source: Company, Systematix Institutional Research

Exhibit 33: Higher subscriber and ARPU to aid Jio revenues (Rs bn)



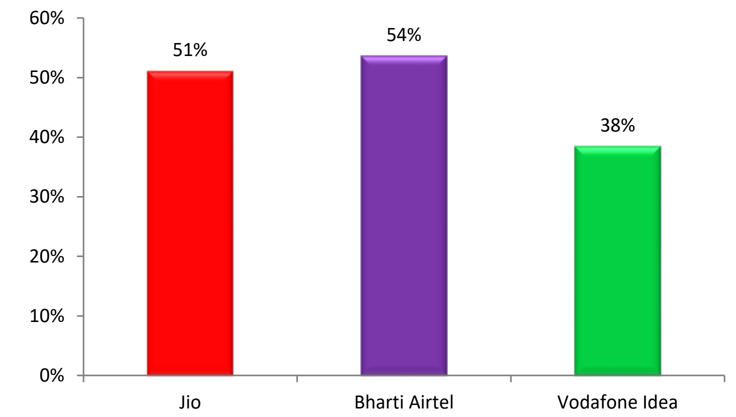
Source: Company, Systematix Institutional Research

Exhibit 34: EBITDA and EBITDA margin to expand significantly



Source: Company, Systematix Institutional Research

Exhibit 35: 9MFY23 EBITDA Margin peer comparison

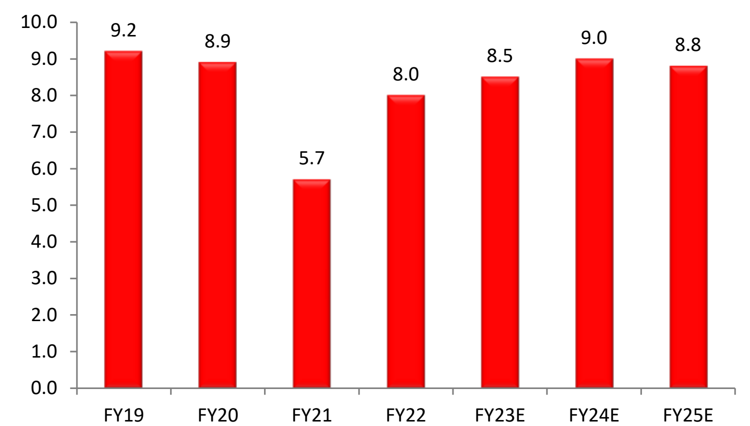


Source: Company, Systematix Institutional Research

Upstream: Production boost to lift earnings

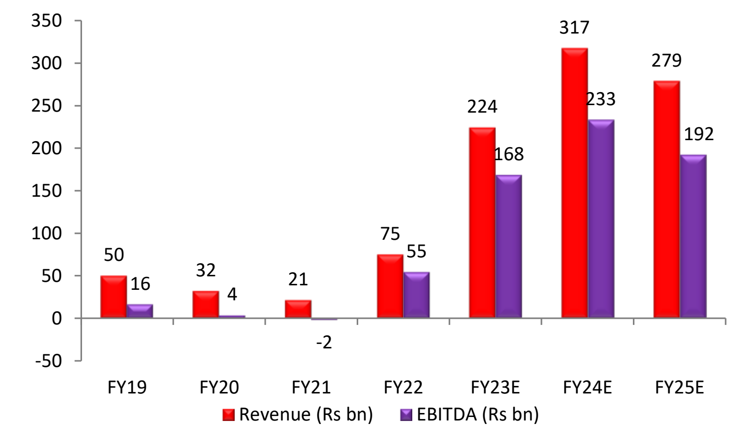
Production from KG-basin is likely to go up to ~30mmscmd in FY24E from ~19mmscmd currently, following the start of production from MJ field. We have conservatively factored in gas price of USD 11.0/9.5 per mmbtu for FY24E/FY25E, respectively, from USD12.5/mmbtu currently as global prices have started corrected. However, CBM gas price realisation is expected to remain strong at USD 20/ USD 18/mmbtu for the same period. Consequently, we forecast segmental EBITDA of Rs 229/Rs 188bn during FY24E/FY25E from Rs168 bn in FY23E.

Exhibit 36: KG-D6 total gas production (mmscmd)



Source: Company data, Systematix Institutional Research

Exhibit 37: Upstream revenue and EBITDA (Rs bn)

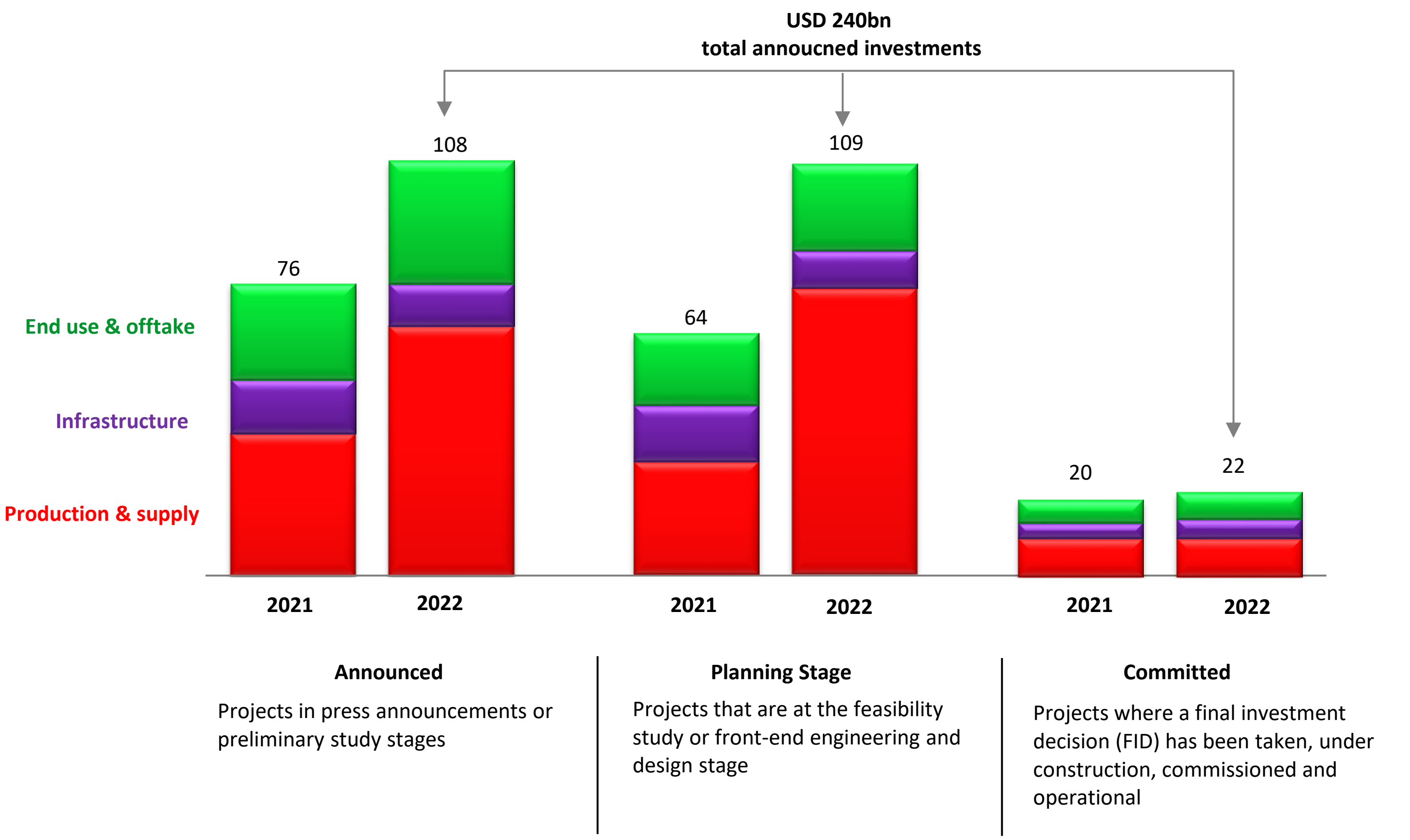


Source: Company data, Systematix Institutional Research

New energy + new material = Carbon-free future

In order to achieve the 1.5°C climate goal under the Paris Accord, the world would need over 5000GW of electrolyser capacity to produce ~600mt of hydrogen vs <1mt in the current years, as per IRENA. This could attract a total investment of >USD 240bn by 2030 and USD 600bn by 2050, which could be a huge opportunity for RIL.

Exhibit 38: Hydrogen Investments until 2030 (USD bn)



Source: Hydrogen Insights 2022, Systematix Institutional Research

Exhibit 39: Energy transition components: Hydrogen

Key Indicators	2030	2040	2050
Clean hydrogen production	> 0 EJ/yr	19 EJ/yr	74 EJ/yr
Clean hydrogen share in total final energy	< 0.1%	3%	12%
Clean hydrogen share in transport	< 0.1%	0.7%	12%
Ammonia, methanol share in final energy consumption	< 0.1%	0.4%	8%
Clean hydrogen consumption industry	> 0 EJ	16 EJ	38 EJ

Source: IRENA, Systematix Institutional Research

RIL aims to become a net carbon zero company by 2050. To fulfil this vision, the company has announced an initial investment of USD 10bn over FY22-25E on four giga factories during its 44th AGM. These four giga factories would cover the entire ecosystem of low-carbon hydrogen-based fuel system, which in turn would be based on renewable energy through solar power. These four giga factories will be located at Jamnagar spanning a total area of ~5000 acres, which would comprise of 1) Solar PVs, 2) grid batteries, 3) hydrogen electrolyzer, and 4) fuel cell.

Solar PV: The company has already done three major acquisitions in this space, under its 100% subsidiary, Reliance New Energy Solar Ltd (RNSL). RNSL acquired 100% stake in REC Solar, Norway, which is a major low-cost polysilicon and PV cell manufacturing company. It also acquired 40% stake in Sterling & Wilson Solar Co (S&W), a major EPC player in solar. And lastly, it invested in NexWafe Gmbh, a green solar wafer manufacturing start up. We believe RIL will likely set up a 20GW capacity to manufacture Solar PV panels initially at a total capex of USD 5bn, based on USD 250/KWh. Total solar capacity has seen addition of 138GW in 2020, likely to grow by 18% YoY to 163GW in 2021 to touch ~936GW capacity.

Grid batteries: We expect RIL to set up 20GW of battery capacity, akin to the solar panel. The total capex is estimated at USD 2bn, based on USD 100mn/GWh. The company acquired USA based company Ambri Inc. at USD 144mn. Ambri is involved in manufacturing liquid metal batteries for a reliable and inexpensive energy storage coming out of solar and wind energy. The total battery market is expected to garner a market size of USD 50bn by 2030.

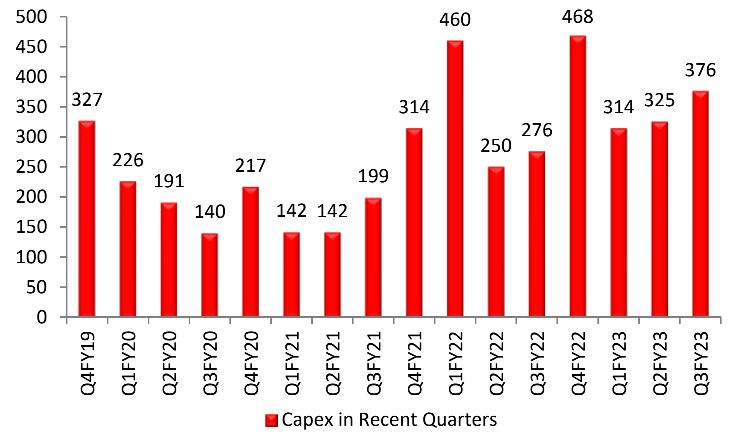
Hydrogen electrolyser: IEA has cited total hydrogen-producing capacity at 90mnT, which results in 900mnT of CO2 emissions. Global electrolyser capacity has doubled in last five years to ~300MW, and the same is expected to touch 54GW by 2030, based on project in progress. We expect RIL to proceed with its 2GW electrolyser capacity, at a total capex of USD 400mn. However, in order to achieve its target of 1-1-1 (USD 1 for 1kg in 1 decade), RIL needs to a) reduce the cost of the electrolyser from USD 500-700 per kwh to USD 200/kwh and secondly, b) increase efficiency to ~80% from 60-65% currently, while the stack life of the electrolyser needs to increase as well.

Hydrogen-based fuel cell: Fuel cell electric vehicle (FCEV) increased from 7,000 in 2017 to nearly 43,000 globally by mid 2021. We believe RIL will likely set up its hydrogen-based fuel cell capacity in line with the 2GW electrolyser capacity at a total capex of nearly USD 500mn. Though, it’s still far lower from EVs of nearly 11mn**,** but FCEV is still a preferable mode for long distances. RIL wants to make a hydrogen-led economy, where fuel cell have an important role to play. Recently, RIL and Ashok Leyland (AL IN, BUY) unveiled a hydrogen Internal Combustion Engine (H2-ICE)-based truck, which provides a lot of optimism.

Higher capex to keep FCFF low; Debt levels to rise, but would stay at a comfortable level

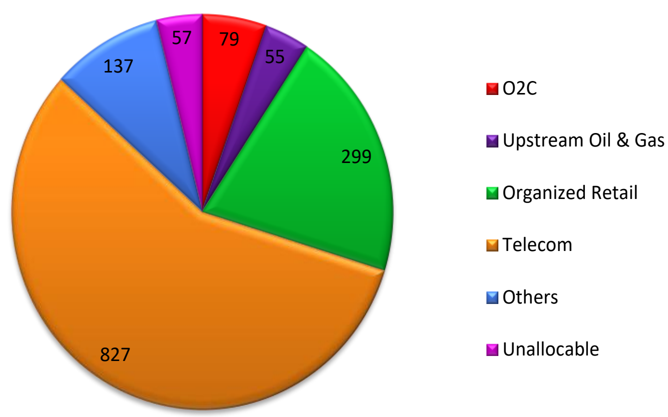
Of RIL's announced total capex of a whopping Rs 8.6trn in the last decade, 46% was for consumer businesses. However, of the total capex of ~Rs 4trn incurred by the company during FY20-9MFY23, mere 7% was dedicated to the consumer business, including spectrum purchases. We expect capex to remain elevated over the next few years, as RIL has announced that it would invest a) USD 9bn towards petrochemical expansion, b) USD 10bn in new energy, c) Rs 880bn on 5G spectrum (to be paid in 20 annual installments), d) on 5G roll out, and e) regular capex in all segments. Overall, we forecast capex of Rs 1.4trn/ Rs 1.3trn/ Rs 1.4trn during FY23E/ FY24E/ FY25E, respectively. Consequently, we expect FCF to remain muted during FY23E-FY25E, despite the company generating OCF of Rs 1.4-1.5trn. Net debt too is expected to rise to Rs 1.8trn in FY25E from Rs 1.4trn in FY23E. Yet, we expect EBITDA/net debt to remain comfortable at 1x, with net debt/equity at 0.2x (flattish from current levels).

Exhibit 40: Net debt, EBITDA/net debt and net debt to equity (Rs bn)



Source: Company data, Systematix Institutional Research

Exhibit 41: Bifurcation of FY22 capex (Rs bn)



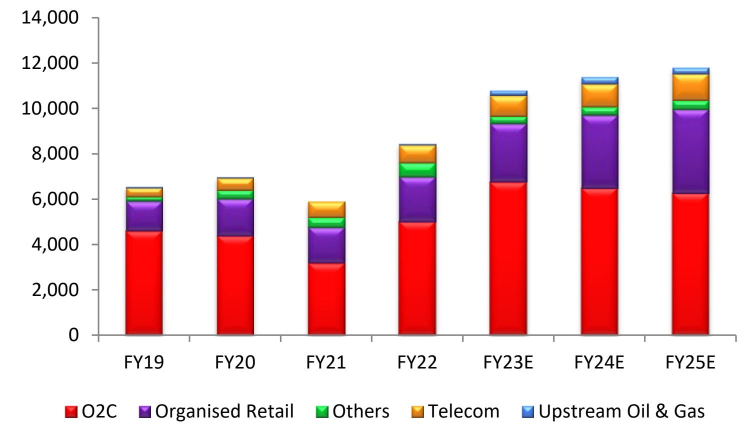
Source: Company data, Systematix Institutional Research

EBITDA CAGR of 13% during FY23E-FY25E to be led by consumer business

We forecast EBITDA to expand at 13% CAGR over FY23E-FY25E, led primarily by consumer businesses. Retail and telecom businesses are slated to grow at 24% CAGR, while other businesses, including O2C, upstream and others are estimated to post mere 4% CAGR during this period. Higher EBITDA will likely get translated into EPS CAGR of 12.3% to Rs 108/Rs 119 during FY24E/FY25E, respectively, from Rs 94.5 in FY23E.

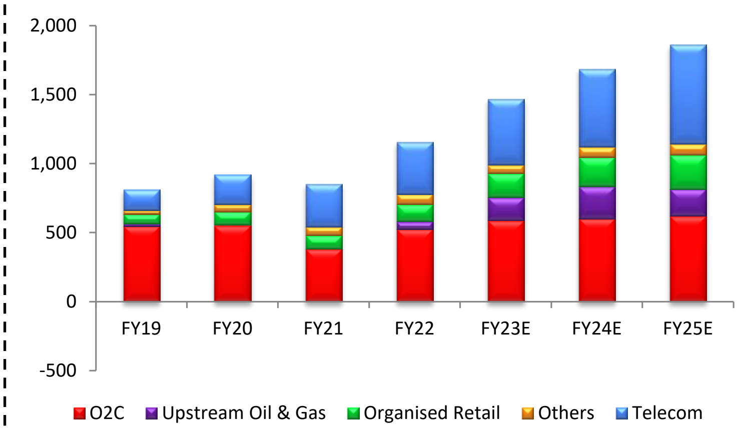
Financials in charts

Exhibit 42: Revenue: Consumers to expand its proportion (Rs bn)



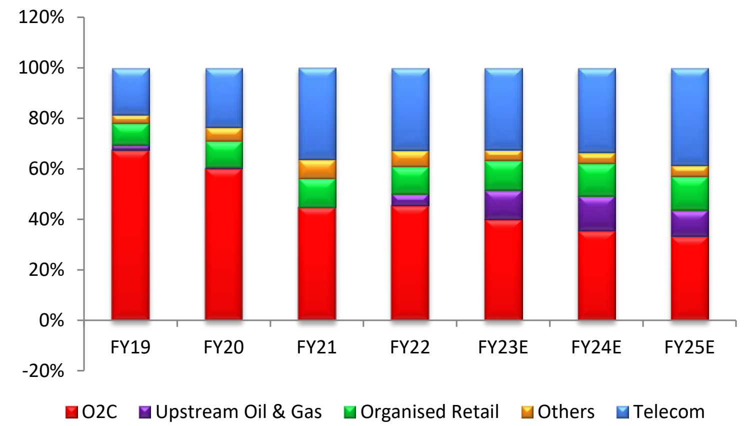
Source: Company data, Systematix Institutional Research

Exhibit 43: EBITDA: Retail + Jio to contribute 52% in FY25E (Rs bn)



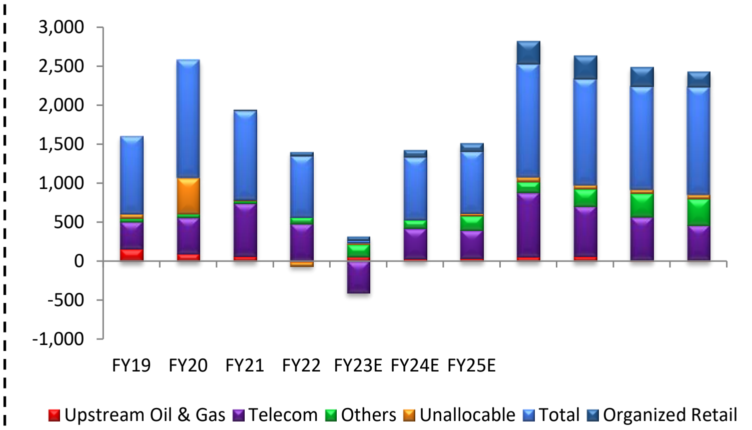
Source: Company data, Systematix Institutional Research

Exhibit 44: EBITDA contribution - Segmental split (%)



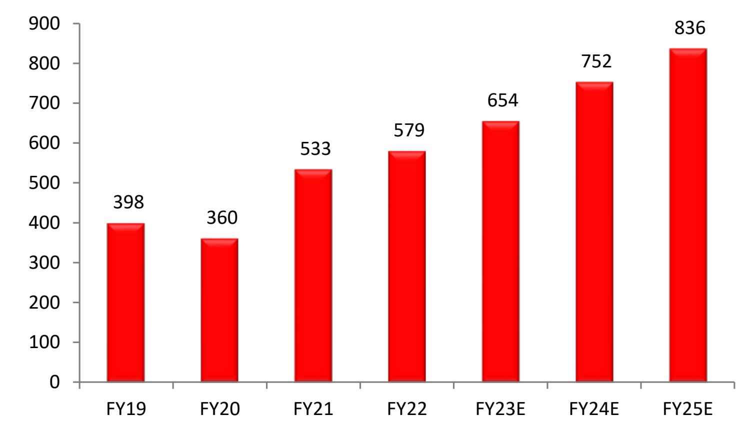
Source: Company data, Systematix Institutional Research

Exhibit 45: Capex – Segmental split (Rs bn)



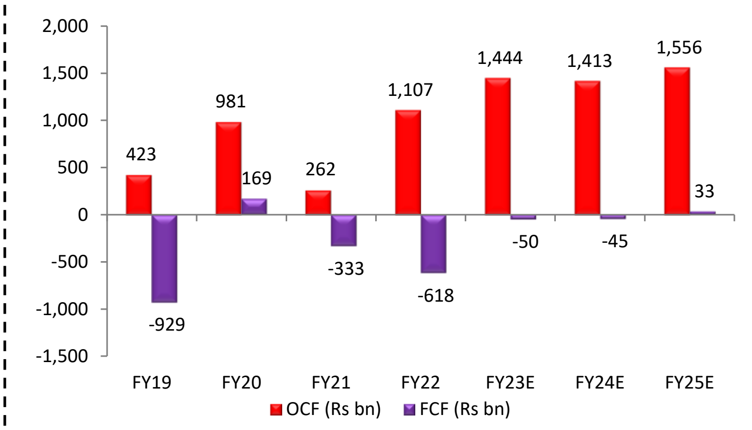
Source: Company data, Systematix Institutional Research

Exhibit 46: Sharp 13% CAGR in PAT over FY22-25E (Rs bn)



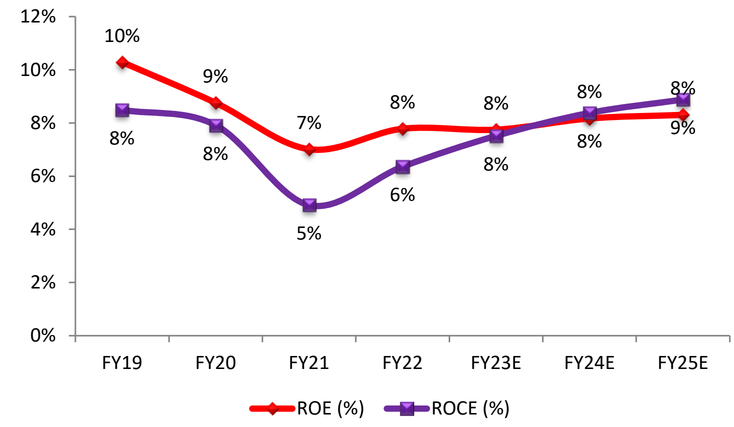
Source: Company data, Systematix Institutional Research

Exhibit 47: Strong OCF to be negated by higher capex (Rs bn)



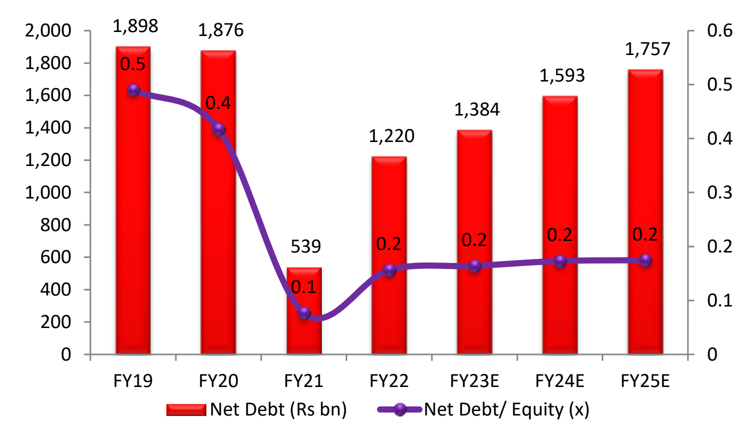
Source: Company data, Systematix Institutional Research

Exhibit 48: RoE and RoCE to improve marginally (%)



Source: Company data, Systematix Institutional Research

Exhibit 49: Net Debt and Net D/E



Source: Company data, Systematix Institutional Research

BUY with a TP of Rs 2,825

Our TP of Rs 2,825 is based on RIL's SOTP valuation, wherein we have assigned an FY25E EV/EBITDA of 8.5x to its O2C business (Rs 783/share), based on 10% premium to the global player. The complexity and ability of this business to generate superior margins due to higher integration levels warrants the premium. Further, we have ascribed EV/EBITDA multiple of 32x to its organised retail business (in line with its domestic peer group) and 13x to its digital services business, based on 20% premium to Bharti Airtel due to faster subscriber growth, to arrive at a valuation of Rs 1,170 and Rs 918 per share, respectively.

Further, on DCF, we have valued the upstream business at Rs 84/share, at 10% discounting rate. Lastly, at 1x EV/sales its other businesses, media, financial services, etc., generate a value of Rs 60. After deducting net debt, we arrive at a TP of Rs 2,825 for RIL. Although we have not assigned any value to its new energy business, its option value, based on global peers, could generate 1.5x-2x of investment, i.e., ~Rs 180-Rs 240 per share. We initiate coverage with a BUY rating.

Exhibit 50: SOTP-based valuation

FY24E	Method	EBITDA (Rs bn)	Multiple	EV (Rs bn)	EV (US$ bn)	Rs/share
O2C	EV/EBITDA	623	8.5	5,298	64	783
Upstream Oil & Gas (67%)	DCF	192	-	569	7	84
Organised Retail (85.1%)	EV/EBITDA	247	32.0	7,912	96	1,170
Others	EV/Sales	392	1.0	403	5	60
Digital Services (66.5%)	EV/EBITDA	478	13.0	6,213	75	918
Total		**1,932**	**10.6**	**20,396**	**247**	**3,015**
Adj. Net Debt				1,284	16	190
Equity Value				**19,112**	**232**	**2,825**

Source: Systematix Institutional Research

Key risks

1. Any change in formula to calculate the domestic gas price or retain a ceiling, could hamper RIL's earnings and valuations.
2. RIL's profitability is a direct function of hydrocarbon prices. Any volatility in crude oil price may cause a diversion in our estimates.
3. The company's profitability depends on exchange rate. The depreciation of INR against the USD could inflate profits and vice versa.
4. We see an upside risk to the company, with crude oil and natural gas coming into the GST regime.
5. Any change in government's policy on telecom may have a direct bearing on the company's earnings and valuations.

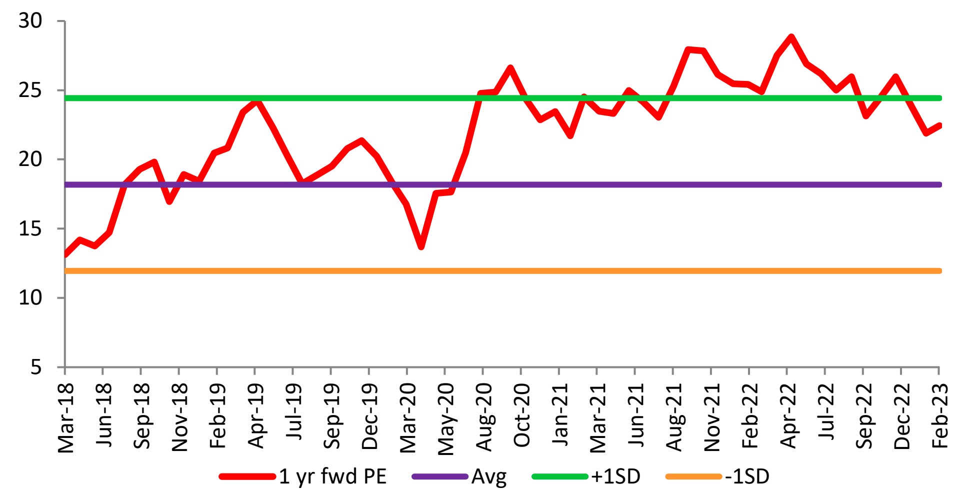
One-year forward band charts

P/E

	Last 3-years	Last 5-years
Min	13.7	13.1
Max	28.9	28.9
Average	23.9	21.9

Source: Bloomberg, Systematix Institutional Research

Exhibit 51: One-year forward P/E



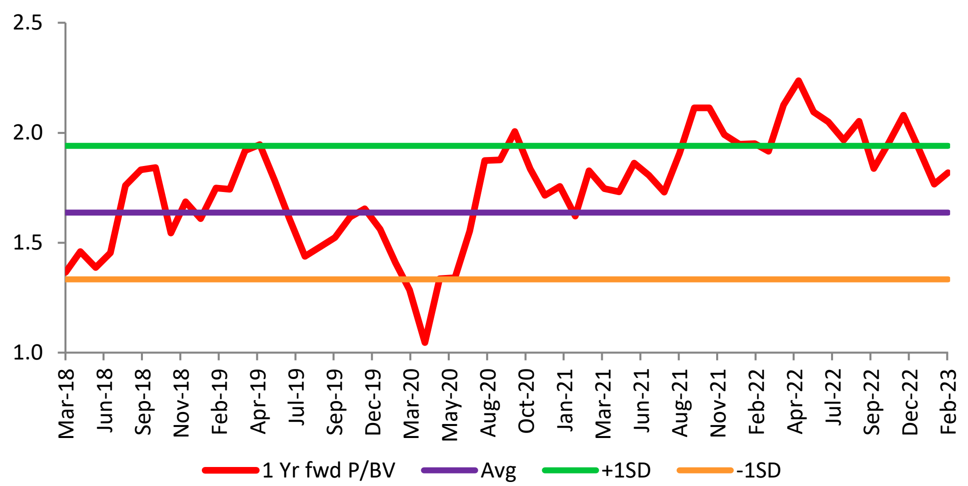
Source: Bloomberg, Systematix Institutional Research

P/BV

	Last 3-years	Last 5-years
Min	1.0	1.0
Max	2.2	2.2
Average	1.8	1.7

Source: Bloomberg, Systematix Institutional Research

Exhibit 52: One-year forward P/BV



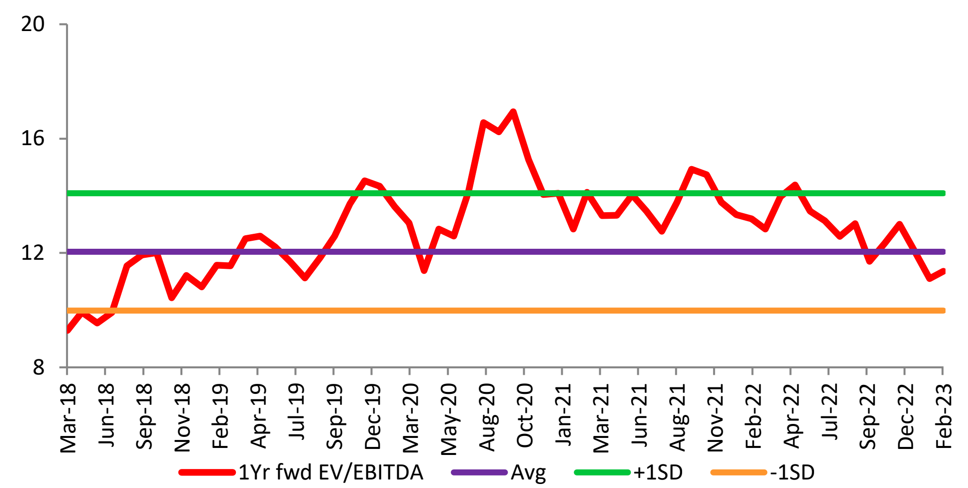
Source: Bloomberg, Systematix Institutional Research

EV/EBITDA

	Last 3-years	Last 5-years
Min	11.1	9.3
Max	16.9	16.9
Average	13.5	12.8

Source: Bloomberg, Systematix Institutional Research

Exhibit 53: One-year forward EV/EBITDA



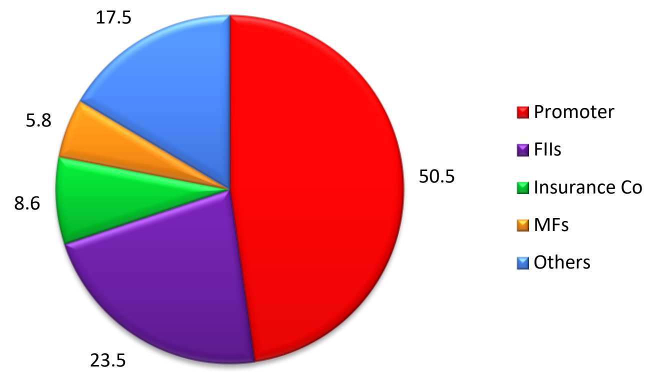
Source: Bloomberg, Systematix Institutional Research

About the company

Reliance Industries (RIL) is India's largest private sector company, with businesses spread across segments like oil exploration and production, textiles, petroleum refining & marketing, retail, and petrochemicals. The company is also present in infotel, financial services and special economic zones through subsidiaries.

The conglomerate is a Fortune Global 500 company and on Forbes Global 2000 list.

Exhibit 54: Shareholding pattern (%)



Source: Company data, Systematix Institutional Research

Exhibit 55: RIL in numbers

Jio customer base (mn)	410
Number of Jio fiber connections (mn)	5
Number of Reliance Retail stores	15,196
Jio Mart coverage (number of cities)	260
Number of retail fuel outlets	1,460

Source: Company data

Exhibit 56: Key Management Personnel

Name	Designation	Qualification	Profile
Mr. Mukesh Ambani	Chairman & MD	Chemical Engineer, ICT Mumbai; MBA, Stanford University	Mr. Ambani has been on the Board of RIL since 1977. He initiated Reliance's backward integration journey – from textiles to polyester fibre - and further on to petrochemicals and petroleum refining, then going upstream into oil and gas exploration and production.
Mr. Hital Meswani	Executive Director	Chemical Engineer, UPenn, USA	His overall responsibility spans the petroleum refining & marketing business, petrochemicals manufacturing and RIL's several corporate functions, including HRM, IT, research & technology and capital projects execution.
Mr. Nikhil Meswani	Executive Director	Chemical Engineer	Mr. Meswani is primarily responsible for the petrochemicals division, and has made major contributions towards Reliance becoming a global leader in petrochemicals. Between 1997 and 2005, he handled the company's refinery business.
Mr PMS Prasad	Executive Director	BSc, Osmania University; BE, Anna University	Mr. Prasad has been with Reliance for about 40 years, holding various senior positions in the company's fibre, petrochemical, refining & marketing and exploration & production businesses.

Source: Company data

FINANCIALS (STANDALONE)

Profit & Loss Statement

Y/E Mar (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	**4,669.2**	**7,000**	**10,037**	**10,555**	**10,911**
Raw Material	1,908.5	3,393	6,104	6,208	6,243
Purchases	1,018.5	1,356	1,369	1,383	1,397
Opex	934.9	1,146	1,154	1,335	1,469
EBITDA	**807.4**	**1,105**	**1,410**	**1,628**	**1,802**
Depreciation	265.7	298	377	415	444
EBIT	**541.7**	**807**	**1,033**	**1,213**	**1,358**
Interest Cost	211.9	146	188	190	186
Other Income	163.3	149	132	137	130
PBT Before Exceptionals	**493.0**	**810**	**977**	**1,161**	**1,303**
Exceptional Items	56.4	28	0	0	0
PBT	**549.4**	**839**	**977**	**1,161**	**1,303**
Tax	17.2	163	246	293	328
Minority Interest	(41.0)	-69	-76	-116	-139
Reported PAT	**491.3**	**607**	**654**	**752**	**836**
Adjusted PAT	**533.5**	**579**	**654**	**752**	**836**
Reported EPS (Rs)	76.2	89.7	96.7	111.2	123.5
Adjusted EPS (Rs)	**82.8**	**85.5**	**96.7**	**111.2**	**123.5**

Source: Company, Systematix Institutional Research

Cash Flow

Y/E Mar (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	555	841	977	1,161	1,303
Depreciation	266	298	377	415	444
Others	-19	-2	56	52	56
Income Tax	-32	-38	-141	-185	-219
Change in Working Capital	-507	7	175	-30	-28
Operating Cash Flow	262	1,107	1,444	1,413	1,556
Capital Expenditure	-1,035	-970	-1,362	-1,322	-1,382
Change in Investments	-465	3	-6	-6	-6
Interest & Dividend Income	84	60	132	137	130
Other investing activities	0	-193	0	0	0
Investing Cash Flow	-1,416	-1,101	-1,236	-1,191	-1,258
FCF	-1	0	0	0	0
Change in Equity	2,136	402	0	0	0
Change in Debt	-837	99	380	-20	-20
Interest & Div. Paid & others	-280	-328	-352	-410	-442
Financing Cash Flow	1,019	173	28	-430	-462
Change in Cash	-135	178	236	-209	-164
Opening Cash Balance	309	183	362	598	389
Closing Cash Balance	174	362	598	389	225

Source: Company, Systematix Institutional Research

Key Assumptions

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
O2C – Prod. meant for sale	63.6	68.2	67.2	68.0	68.4
O2C - EBITDA	381.7	527.2	588.7	601.3	623.3
O2C - EBITDA/mt	0.1	0.1	0.1	0.1	0.1
Retail - Revenue/sq ft	50,966	40,506	42,063	44,166	44,166
Retail - EBITDA	98	124	173	213	247
Retail - EBITDA margin	7.1%	6.8%	7.6%	7.5%	7.6%
Jio - Subscriber base	426	410	436	456	476
Jio - ARPU	143.6	150.3	172.0	174.0	191.4
Jio - EBITDA	311	378	477	566	719
Oil & Gas - KG basin volume	3.6	16.3	20.8	30.0	30.0
Oil & Gas- EBITDA	-2	55	168	233	192

Source: Company, Systematix Institutional Research

Balance Sheet

Y/E Mar (Rs bn)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	64	68	68	68	68
Reserves & Surplus	6,937	7,727	8,370	9,134	9,992
Minority Interest	993	1,095	1,019	902	763
Networth	**7,994**	**8,890**	**9,456**	**10,104**	**10,823**
Total Debt	2,238	2,663	3,063	3,063	3,063
Other Long Term Liabilities	221	256	262	267	272
Long Term Provisions	26	19	19	20	21
Deferred Tax Liabilities	547	858	943	1,030	1,119
Capital Employed	**11,026**	**12,686**	**13,743**	**14,484**	**15,298**
Gross Block	**7,656**	**8,706**	**10,268**	**11,440**	**12,622**
Accumulated Depreciation	2,346	2,558	2,935	3,350	3,794
Net Block	5,310	6,148	7,333	8,090	8,828
CWIP	1,260	1,725	1,525	1,675	1,875
Total Fixed Assets	6,570	7,873	8,858	9,765	10,703
Long Term Inv. & Others	2,901	3,643	3,666	3,676	3,684
Current Assets	**3,730**	**3,470**	**4,586**	**4,527**	**4,466**
Short Term Investments	1,524	1,081	1,081	1,081	1,081
Inventories	817	1,078	1,545	1,625	1,680
Sundry Debtors	190	236	339	356	369
Cash & Bank Balance	174	362	598	389	225
Short Term Loans & Advances	612	240	345	362	375
Others	413	473	678	713	737
Current Liab. & Provisions	**2,175**	**2,301**	**3,367**	**3,484**	**3,555**
Creditors	1,089	1,593	2,332	2,413	2,462
Other Current Liabilities	1,061	688	1,007	1,042	1,063
Short Term Provisions	25	19	28	29	30
Net Current Assets	1,555	1,170	1,219	1,043	911
Total Assets	**11,026**	**12,686**	**13,743**	**14,484**	**15,298**

Source: Company, Systematix Institutional Research

Ratios (Consolidated)

Y/E Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth					
Revenue growth	-21.9%	49.9%	43.4%	5.2%	3.4%
EBITDA growth	-9.3%	36.8%	27.6%	15.5%	10.7%
Adjusted PAT growth	48.1%	8.5%	13.0%	15.0%	11.1%
Margins					
EBITDA margin	17.3%	15.8%	14.0%	15.4%	16.5%
PBT margin	10.6%	11.6%	9.7%	11.0%	11.9%
Effective Tax rate	3.1%	19.4%	25.2%	25.2%	25.2%
Adjusted PAT margin	11.4%	8.3%	6.5%	7.1%	7.7%
Operating Cycle					
Inventory days	64	56	56	56	56
Debtor days	15	12	12	12	12
Creditor days	103	99	99	99	99
Working Capital Cycle	-24	-30	-30	-30	-30
Return Ratios					
ROE	7.0%	7.8%	7.8%	8.2%	8.3%
ROCE	4.9%	6.4%	7.5%	8.4%	8.9%
Capex/revenue	10.5%	21.7%	13.6%	12.5%	12.7%
Net debt / Equity	0.1	0.2	0.2	0.2	0.2
Yield Analysis					
CFO Yield	1.9%	7.0%	9.7%	9.8%	10.9%
FCF Yield	-2.1%	-3.8%	-0.3%	-0.3%	0.2%
Dividend Yield	0.3%	0.3%	0.4%	0.5%	0.6%
P/E (x)	29.2	28.2	25.0	21.7	19.5
P/B (x)	2.2	2.1	1.9	1.8	1.6
EV/Sales (x)	3.4	2.5	1.8	1.7	1.7
EV/EBITDA (x)	19.9	15.9	12.6	11.0	10.0

Source: Company, Systematix Institutional Research

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