

Industry	Oil & Gas
Bloomberg	RIL IN
BSE CODE	500325

## Strong performance by petrochemicals, retail and Jio

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>1150</b>
<b>Price Target</b>	<b>1351</b>
<b>Potential Upside</b>	<b>17%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↑

### Stock Info

52wk Range H/L	1329/861
Mkt Capital (Rs Cr)	718643
Free float (%)	53%
Avg. Vol 1M (,000)	11,212
No. of Shares (Cr)	633
Promoters Pledged %	0%

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### Q3 FY19 result update-

- ❑ Reliance has reported another good set of numbers with strong revenue growth of 57% YoY to Rs. 156,397 Cr. but weak refining margins(though better than expectations), higher depreciation and interest cost has restrained PAT growth of 10% YoY to Rs. 10,376 Cr in Q3 FY19.
- ❑ Petrochemicals segment revenue increased by 37% YoY to Rs. 46,246 cr. on account of 21% YoY increase in volumes and about 13% higher realizations on YoY basis. Growth in volume was led by successful stabilization of the world's largest ROGC, and new PX facility at Jamnagar.
- ❑ Reliance has surpassed Singapore refining margins by 4.5 USD/bbl and reported margins of 8.8 USD/bbl in Q3 FY19 vs 9.5 USD/bbl in Q2 FY19. Performance of this segment is impacted by the sharp decline in light distillate product cracks on YoY basis.
- ❑ Crude oil production continues to decline by 28% YoY to 1.1 MMBBL due to cessation of production from MA field in Sep 2018. This resulted in decline in revenue by 28% YoY to Rs. 1182 Cr in Q3 FY19.
- ❑ Reliance Retail has added 140 stores and 640 Jio Points during 3Q FY19 and currently operates 9,907 stores (including Jio outlets) and 514 petro outlets across more than 6400 cities and towns as of 31st Dec, 2018.
- ❑ In Q3 FY19, Jio has added 30 mn. Subscriber reaching total count to 280million and has reported PAT of Rs.831 Cr while APRU declined from Rs. 132 to Rs.130.
- ❑ Capex of Q3 FY19 was Rs.27,274 Cr. and debt as on 31st December, 2018 was Rs. 274,381 Cr.

### View and Valuation

Reliance is continuously performing better on the back of strong performance in petrochemicals and retail segment. Going forward, petrochemicals business which contributes about 30% of the total revenue is likely to grow in double digit on the back of successful stabilization of the world's largest ROGC. In retail business, company is actively acquiring market share in organized retail chain by opening around 130-140 new retail outlets in every quarter. In Jio business, company is aggressively expanding its subscriber base by keeping lower tariffs. The company plans to maintain its growth momentum ahead with target network coverage of 99% by Mar'19. Considering robust growth in petrochemical segment and organized retail business along with momentum in Jio, we maintain positive view on Reliance and expect Revenue and PAT to grow at 34% and 12% CAGR respectively over FY18-20E. **We maintain our BUY rating.**

### Key Risks to our rating and target

- ❑ Slow down in global demand could impact RIL's refining margins.
- ❑ Higher interest and depreciation remain a key concern for the company.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	273999	305382	391677	591862	707257
EBITDA	41704	46194	64176	85034	99926
EBIT	30139	34548	47470	64128	71434
PAT	29861	29833	36080	40006	44601
EPS (Rs)	47	47	57	63	70
EPS growth (%)	27%	0%	21%	11%	11%
ROE (%)	13%	11%	12%	12%	12%
ROCE (%)	8%	8%	11%	13%	13%
BV	366	417	464	511	565
P/B (X)	1	1	2	2	2
P/E (x)	11	13	17	18	16

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**3Q FY 19**
**Results above expectation**
**Strong performance**

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	99810	116915	128756	143323	156397	<b>56.7%</b>	<b>9.1%</b>	305382	391677	<b>28.3%</b>
Other Income	2218	2203	1778	1250	2460	<b>10.9%</b>	<b>96.8%</b>	9443	8862	<b>-6.2%</b>
COGS	65720	82283	90001	100479	111359	<b>69.4%</b>	<b>10.8%</b>	212300	267466	<b>26.0%</b>
Gross Margin	34%	30%	30%	30%	29%	<b>-5.4%</b>	<b>-1.1%</b>	30%	32%	<b>1.2%</b>
Employee Cost	2333	2475	2951	2927	3265	<b>39.9%</b>	<b>11.5%</b>	8388	9523	<b>13.5%</b>
Other Expenses	14169	13688	15143	18809	20456	<b>44.4%</b>	<b>8.8%</b>	38500	50512	<b>31.2%</b>
EBITDA	17588	18469	20661	21108	21317	<b>21.2%</b>	<b>1.0%</b>	46194	64176	<b>38.9%</b>
EBITDA%	18%	16%	16%	15%	14%	<b>-4.0%</b>	<b>-1.1%</b>	15%	16%	<b>1.3%</b>
Depreciation	4530	4852	5173	5229	5237	<b>15.6%</b>	<b>0.2%</b>	11646	16706	<b>43.4%</b>
EBIT	13058	13617	15488	15879	16080	<b>23.1%</b>	<b>1.3%</b>	34548	47470	<b>37.4%</b>
Interest	2095	2566	3550	3932	4119	<b>96.6%</b>	<b>4.8%</b>	3849	8052	<b>109%</b>
PBT	13181	13254	13716	13197	14421	<b>9.4%</b>	<b>9.3%</b>	40142	48280	<b>20.3%</b>
Exceptional	-	-	-	-	-			-	1087	
Tax	3775	3787	4241	3649	4069	<b>7.8%</b>	<b>11.5%</b>	10201	13346	<b>30.8%</b>
PAT	9445	9459	9485	9516	10376	<b>9.9%</b>	<b>9.0%</b>	29833	36080	<b>20.9%</b>
PAT Margin	9%	8%	7%	7%	7%	<b>-2.8%</b>	<b>0.0%</b>	10%	9%	<b>-0.6%</b>

**Segment Performance:**
**Petrochemicals Segment:**
**Petro-chemicals segment is gaining traction**

In Q3 FY19, revenue from the Petrochemicals segment increased by 37% YoY to Rs. 46,246 Cr on account of increase in price realizations and volumes primarily in polymer products and fibre intermediates. Volume growth is led by successful stabilization of the world's largest ROGC, and new PX facility at Jamnagar. Strong volume growth and robust polyester chain margins offset the impact of weaker polymer margins. Going forward, on the back of stabilization and ramp-up of new capacities, this segment is expected to maintain its volume growth momentum ahead and is likely to grow at 12-15% for next couple of quarters.

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
Volume(MT)	6.2	6.5	7.5	8	8.8	9.2	9.4	9.7	21%	3%
Revenue	26478	25461	27999	33726	38113	40287	43745	46246	37%	6%
EBIT	3441	4031	4960	5753	6435	7857	8120	8221	43%	1%
EBIT %	13.0%	16.0%	18.0%	17.0%	17.0%	20.0%	19.0%	18.0%	1.0%	-1.0%

**Refining Segment:**
**Weakness in refining and marketing business**

The company has out-performed Singapore refining margins by USD 4.5/bbl and reported margins of 8.8 USD/bbl in Q3 FY19 vs USD 11.6 /bbl in 3Q FY18 and USD 9.5 /bbl in 2Q FY19. Performance of this segment is impacted by the sharp decline in light distillate product cracks on YoY basis. This is led by the sharp correction in crude oil prices witnessed in the last quarter. However, this was partly offset by strength in middle distillate cracks on YoY basis and the company has reported margins better than our expectations. Going forward, improvement in the refining margins of the company is expected once crude oil prices stabilize.

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
Volume(MT)	17.5	17.5	18.1	17.7	16.7	16.6	17.7	18	2%	2%
GRM(\$/bbl)	11.5	11.9	12	11.6	11	10.5	9.5	8.8	-24%	-7%
S.GRM(\$/bbl)	6	5.5	8.3	7.2	6.6	6	6.1	4.3	-40%	-30%
Revenue	72045	66945	69766	75865	93519	95646	98760	111738	47%	13%
EBIT	6294	7476	6621	6165	5607	5315	5322	5055	-18%	-5%
EBIT %	9.0%	11.0%	9.0%	8.0%	6.0%	6.0%	5.0%	5.0%	-3.0%	0.0%

## Oil and Gas Segment:

### Continuous natural decline in volumes

Revenues from E&P operations decreased by 28% on YoY to Rs.1182 Cr due to cessation of production from MA field in Sep 2018. Company continue to observe a natural decline in KG-D6 field which has produced 6.08 BCF of natural gas in 3Q FY19, a reduction of 62% on a YoY basis. During the last quarter Panna-Mukta fields produced 1.08 MMBBL of crude oil and 13.5 BCF of natural gas in Q3 FY19, a reduction of 18% in crude oil and 11% in natural gas on YoY basis. Lower production is mainly on account of natural field decline. However, the company is developing R-Cluster project and is progressing as per plan. Drilling process is completed for 2 wells out of 6 wells and drilling of 3rd well is currently in progress. Company expects R-Series to produce first gas by mid-CY20.

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
Oil Vol(MMBBL)	1.72	1.55	1.58	1.495	1.468	1.25	1.06	1.08	-28%	2%
Gas vol(BCM)	38.2	35.25	34.7	31.2	28.71	27.04	22.4	19.58	-37%	-13%
Revenue	1309	1324	1503	1631	746	1432	1322	1182	-28%	-11%
EBIT	-486	-373	-272	-291	-600	-447	-480	-185	-36%	-61%
EBIT %	-37%	-28%	-18%	-18%	-80%	-31%	-36%	-16%	2%	20%

## Retail Segment:

### Expanding organised retail base footprint

Reliance Retail added 140 stores and 640 Jio stores during 3Q FY19 and now operates 9907 stores(including Jio outlets) and 512 petro outlets across more than 5,800 cities as of 30th Sep, 2018. In Fashion & Lifestyle, company continues to open new stores and added 100 new stores in Q2 FY19, extending its reach to serve customers across 25 new cities with latest and trendy fashion products. Reliance Jewels crossed a milestone of 100 stores, now operates 109 stores across 57 cities. Ajio.com, the online fashion platform doubled its option width from 60,000 to over 115,000 options during the quarter. Ajio Gold, a collection of premium and luxury brands was launched during the quarter. The company sees the maximum scope in creating a unique online-to-offline platform; this will be done by combining the resources of Reliance Retail and Jio's digital infrastructure. Going forward, strong traction in this segment is expected to be maintained on the back of aggressive expansion across major cities and towns. Further the management has guided that Reliance Retail will target 30% profit growth for each year for the next decade.

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
No. of stores	3,616	3,634	3,679	3,751	3,837	4,003	4,141	4,281	14%	3%
Area	13.5	13.8	14.2	14.5	17.7	18.6	19.5	20.6	42%	6%
Revenue	10332	11571	14646	18798	24183	25890	32436	35577	89%	10%
EBIT	243	292	334	487	951	1069	1244	1512	210%	22%
EBIT %	2.4%	2.5%	2.3%	2.6%	3.9%	4.1%	3.8%	4.2%	1.7%	0.4%

## Digital Segment:

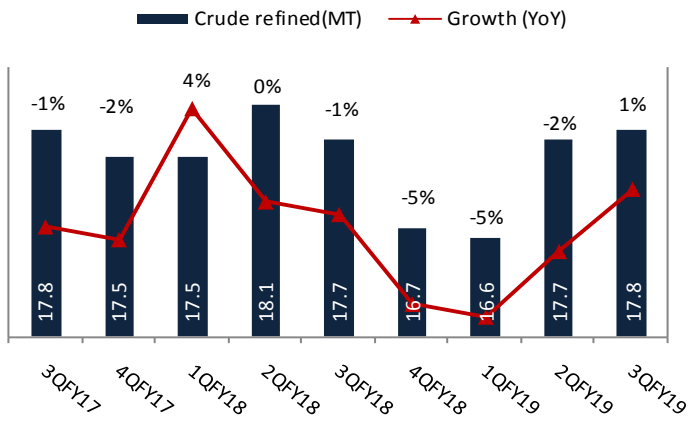
### Robust growth momentum in Jio

Jio continues to acquire huge subscribers and has added 30 million users in the last quarter, post which Jio subscriber base reached to 280 million. Jio is expanding its subscriber base by keeping lower tariffs. On 5th July 2018, company has announced its Jio GigaFiber services for Homes and Enterprise. Jio has partnerships with multi-system operators (MSOs)/local cable operators (LCOs) which will accelerate subscriber addition for JioGigaFiber. Post capturing significant market share, Jio may raise its tariff plans which will improve its margins in coming years. And hence growth momentum is expected to be continued for next couple of quarters.

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY%	QoQ%
Subscriber(Mn)	139	160	187	215	250	280	75%	12%
ARPU	156	154	137	134.5	132	130	-16%	-2%
Revenue	7197	8113.63	8403.6	9567	10901	12252.7	51%	12%
EBITDA	1441	2627	2693.12	3146	3572	4053	54%	13%
EBITDA %	20%	32%	32%	33%	33%	33%	1%	0%
PAT	-271	504	510	612	681	831	65%	22%
PAT %	-3.8%	6.2%	6.1%	6.4%	6.2%	6.8%	0.6%	0.5%

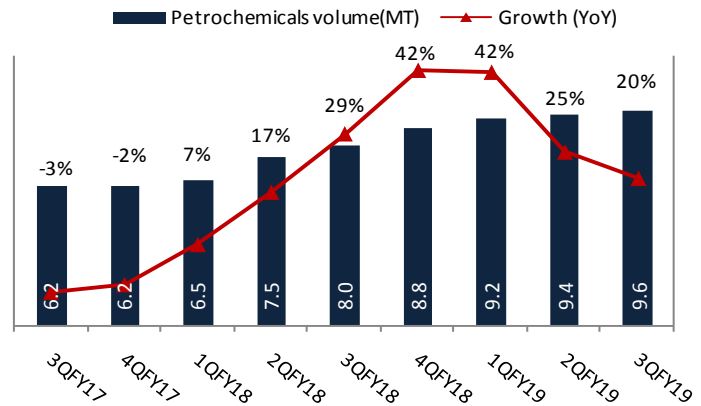
## Exhibit: Refining Volume trend

Sequentially crude volume has improved due to higher demand



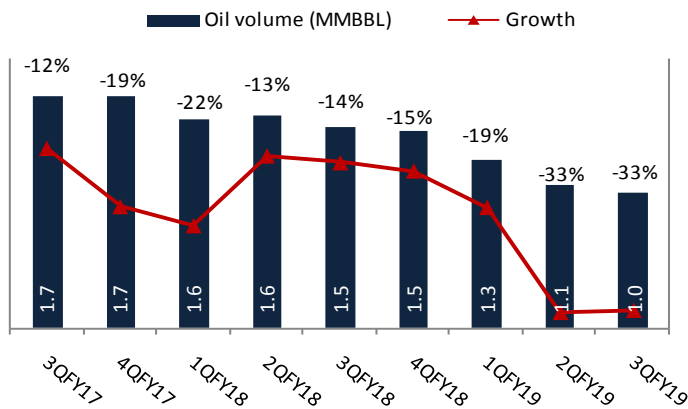
## Exhibit: Petrochemicals volume trend

Volume improved primarily due to higher volumes from new Para xylene, ROGC and its downstream units



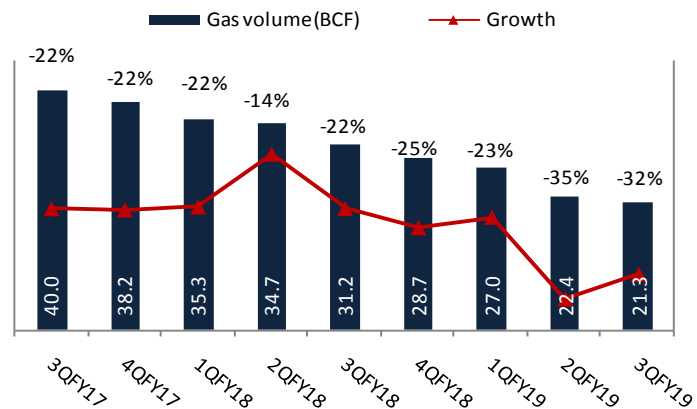
## Exhibit: Oil exploration volume trend

Company is continuously witnessing natural decline and ramp-up of new projects are under progress



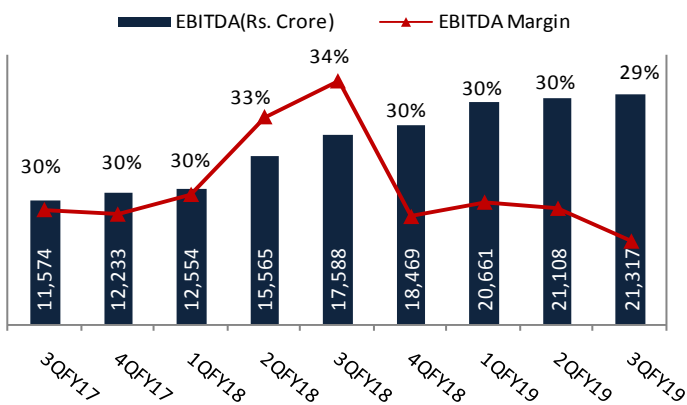
## Exhibit: Gas exploration volume trend

Volumes from conventional fields were lower on account of natural decline and slowdown in development activity.



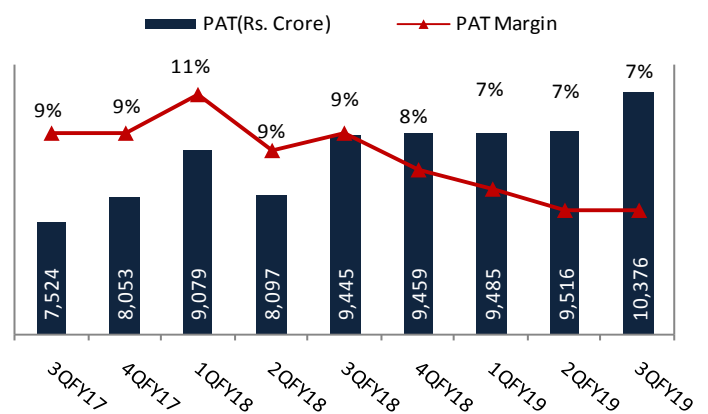
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Sharp improvement in return ratios in last two years on the back of increasing profitability of the company



## Exhibit: PAT (Rs. Crore) and PAT Margin trend

Interest cost and lower other income restricted PAT margin for the quarter



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	2936	2940	2943	2948	2959	5922	5922	5,922
Reserves	179094	195730	215539	228608	260750	287584	317662	351,766
<b>Networth</b>	<b>182030</b>	<b>198670</b>	<b>218482</b>	<b>231556</b>	<b>263709</b>	<b>293506</b>	<b>323584</b>	<b>357,688</b>
Debt	70960	101016	120777	141647	152148	144175	182715	195,800
Total Capital Employed	252990	299686	339259	373203	415857	437681	506299	553,488
<b>Net Fixed Assets (incl CWIP)</b>	<b>183439</b>	<b>232911</b>	<b>318523</b>	<b>409353</b>	<b>518471</b>	<b>585094</b>	<b>646772</b>	<b>690,666</b>
Non Current Investments	13979	26867	25437	41512	25639	25259	25259	25,259
Other Non Current Assets	-	0	14	14061	8279	8653	8653	8,653
Non Current Assets	206443	277774	367909	471212	565526	632562	698567	743,171
<b>Inventory</b>	<b>54601</b>	<b>56720</b>	<b>53248</b>	<b>46486</b>	<b>57260</b>	<b>60837</b>	<b>91930.6</b>	<b>109,854</b>
Debtors	9750	9411	5315	4465	8177	17555	26527.3	31,699
Cash & Bank	50456	37984	12545	11028	3023	4255	2266	4,014
Other Current Assets	1783	3254	3284	16345	19871	32761	35511.7	42,435
Current Assets	155914	151069	136577	127785	146813	183786	232413	269,690
<b>Creditors</b>	<b>49700</b>	<b>60860</b>	<b>59407</b>	<b>60296</b>	<b>76595</b>	<b>106861</b>	<b>129723</b>	<b>135,638</b>
Provisions	4557	4446	5392	1775	1769	1232	1183.72	1,415
Other Current Liabilities	23655	17058	45789	10005	20882	43179	59186.2	63,653
Curr Liabilities	77912	82364	110588	161609	203787	276423	308465	342,158
<b>Net Current Assets</b>	<b>78002</b>	<b>68705</b>	<b>25989</b>	<b>-33824</b>	<b>-56974</b>	<b>-92637</b>	<b>-76052.9</b>	<b>(72,468)</b>
<b>Total Assets</b>	<b>362357</b>	<b>428843</b>	<b>504486</b>	<b>598997</b>	<b>712339</b>	<b>816348</b>	<b>930980</b>	<b>1012860.91</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>397062</b>	<b>434460</b>	<b>375435</b>	<b>273999</b>	<b>305382</b>	<b>391677</b>	<b>591862</b>	<b>707257</b>
Change (%)	11%	9%	-14%	-27%	11%	28%	51%	19%
Other Income	7867	9001	8613	7479	9443	8862	8054	8406
<b>EBITDA</b>	<b>33045</b>	<b>34799</b>	<b>37364</b>	<b>41704</b>	<b>46194</b>	<b>64176</b>	<b>85034</b>	<b>99926</b>
Change (%)	-4%	5%	7%	12%	11%	39%	33%	18%
Margin (%)	8%	8%	10%	15%	15%	16%	14%	14%
Depr & Amor.	11232	11201	11547	11565	11646	16706	20906	28492
<b>EBIT</b>	<b>21813</b>	<b>23598</b>	<b>25817</b>	<b>30139</b>	<b>34548</b>	<b>47470</b>	<b>64128</b>	<b>71434</b>
Int. & other fin. Cost	3463	3836	3316	3691	3849	8052	16153.9	17374
Other Income	7867	9001	8613	7479	9443	8862	8054	8406
<b>EBT</b>	<b>26217</b>	<b>28763</b>	<b>31114</b>	<b>33927</b>	<b>40142</b>	<b>48280</b>	<b>56028.5</b>	<b>62466</b>
Exp Item	-	-	-	4574	-	1087	-	-
Tax	5331	6215	7474	8876	10201	13346	16024.1	17865
Minority Int & P/L share of Ass.	7	55	74	0	0	0	33	0
Reported PAT	20886	22548	23640	29625	29941	36021	40004.3	44601
<b>Adjusted PAT</b>	<b>20886</b>	<b>22548</b>	<b>23640</b>	<b>26247.7</b>	<b>29941</b>	<b>35234.5</b>	<b>40004.3</b>	<b>44601</b>
Change (%)	6%	8%	5%	27%	0%	21%	11%	11%
Margin(%)	5%	5%	6%	11%	10%	9%	7%	6%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	11%	11%	11%	13%	11%	12%	12%	12%
ROCE	9%	8%	8%	8%	8%	11%	13%	13%
Asset Turnover	1.1	1.0	0.7	0.5	0.4	0.5	0.6	0.7
Debtor Days	9	8	5	6	10	16	16	16
Inv Days	50	48	52	62	68	57	57	57
Payable Days	46	51	58	80	92	100	80	70
Int Coverage	6.3	6.2	7.8	8.2	9.0	5.9	4.0	4.1
P/E	12	13	11	11	13	17	18	16
Price / Book Value	1.3	1.5	1.2	1.4	1.5	2.1	2.2	2.0
EV/EBITDA	8	10	10	11	12	12	10	9
FCF per Share	9.8	(26.6)	(45.8)	(13.8)	(45.1)	(3.9)	(38.1)	25.7
Div Yield	1%	1%	1%	1%	0%	1%	1%	1%

### Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	26217	28763	31114	38737	40034	49426	56028.5	62466.3
(inc)/Dec in Working Capital	7372	11030	1815	7829	15463	18538	-18573.1	-1837.19
Non Cash Op Exp	13393	11201	11547	11565	11646	16706	20906	28491.9
Int Paid (+)	3463	3836	3316	3691	3849	8052	16154	17374
Tax Paid	-4824	-6213	-6435	-8582	-10083	-9844	-16024.1	-17865.4
others	-8703	-5356	-6983	-15106	-11359	-11419	2.00	-
<b>CF from Op. Activities</b>	<b>36918</b>	<b>43261</b>	<b>34374</b>	<b>38134</b>	<b>49550</b>	<b>71459</b>	<b>58493.2</b>	<b>88629.6</b>
(inc)/Dec in FA & CWIP	-28588	-59939	-62962	-46554	-76627	-72954	-82584	-72386
Free Cashflow	8330	-16678	-28588	-8420	-27077	-1495	-24090.8	16243.6
(Pur)/Sale of Inv	-2724	-15810	-11858	5848	9230	3520	-	-
others	3662	2679	9922	4516	1105	1144	-	-
<b>CF from Inv. Activities</b>	<b>-27650</b>	<b>-73070</b>	<b>-64898</b>	<b>-36190</b>	<b>-66292</b>	<b>-68290</b>	<b>-82584</b>	<b>-72386</b>
inc/(dec) in NW	-2670	138	359	294	809	453	0	0
inc/(dec) in Debt	10654	22317	17504	12980	20781	19870	52511	14085
Int. Paid	-4626	-5619	-6149	-9224	-12920	-17669	-16153.9	-17374
Div Paid (inc tax)	-2949	-3123	-3268	-7259	-53	-3916	-9928.4	-10496.6
others	-1	0	-2	-1	0	0	0	0
<b>CF from Fin. Activities</b>	<b>408</b>	<b>13713</b>	<b>8444</b>	<b>-3210</b>	<b>8617</b>	<b>-1262</b>	<b>26428.7</b>	<b>-13785.6</b>
Inc(Dec) in Cash	9676	-16096	-22080	-1266	-8125	1907	2338	2458
<b>Add: Opening Balance</b>	<b>40780</b>	<b>50456</b>	<b>34552</b>	<b>12289</b>	<b>11114</b>	<b>3087</b>	<b>4255</b>	<b>2266</b>
Closing Balance	50456	34360	12472	11023	2989	4994	6593	4724

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**Disclosure of Interest Statement-**

Analyst's ownership of the stocks mentioned in the Report	NIL
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