

RELIANCE HOLD

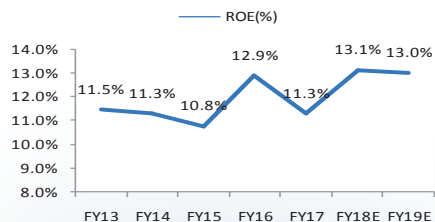
25-Apr-17

INDUSTRY - OIL & GAS
BSE Code - 500325
NSE Code - RELIANCE
NIFTY - 9217

Company Data

CMP	1417
Target Price	1680
Previous Target Price	
Upside	19%
52wk Range H/L	1448/925
Mkt Capital (Rs Cr)	4,60,518
Av. Volume (,000)	409

RoE to maintain over 13%

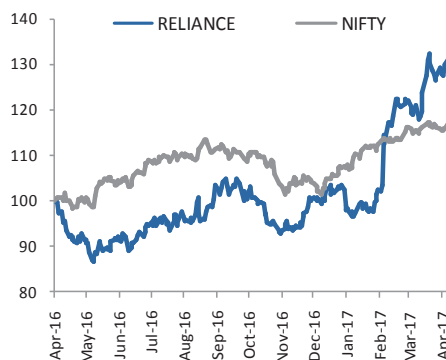


Share Holding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	46.3	46.5	46.5
Public	53.7	53.5	53.5
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	10.1	36.4	42.6
Rel.to Nifty	8.9	19.7	34.8



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Key Highlights of the Report:

- ✓ Reliance commenced commercial production from its Coal Bed Methane (CBM) block Sohagpur (West) and it will gradually ramp-up in the next 15-18 months.
- ✓ Continuing to re-commission Petroleum outlets improves the marketing volume of Petroleum products.
- ✓ Reliance out-performed Singapore GRM by 5.1 USD/BBL and reported GRM of 11.5 USD/BBL.
- ✓ Reliance Retail added 63 stores across various store concepts and now it is operating 3616 stores in 702 cities.
- ✓ Currently, the stock is trading at 1.89x FY17 P/BV. We maintain 'HOLD' with the target price of Rs. 1680

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	3,75,435	2,93,298	3,30,180	4,43,483	4,93,634
EBITDA	37,364	41,704	46,194	68,392	76,153
EBIT	31,114	33,927	40,142	54,437	60,833
PAT	23,566	29,861	29,833	40,049	44,755
EPS (Rs)	73	92	92	124	138
EPS growth (%)	5%	27%	0%	34%	12%
ROE (%)	11%	13%	11%	13%	13%
ROCE (%)	8%	8%	8%	11%	11%
BV	675	715	814	941	1,062
P/B (X)	1.2	1.5	1.5	1.3	1.2
P/E (x)	11.3	11.3	13.5	10.1	9.0

RECENT DEVELOPMENT: Commencement of Ethane Project

- ✓ Reliance commissions ethane receipt & handling facilities, at its Dahej Manufacturing Facility in Gujarat in a world record time of less than three years
- ✓ RIL commissions final phase of Jamnagar paraxylene project at a cost of \$ 16 million
- ✓ Commercial production of natural gas from coal seams or CBM from its Madhya Pradesh blocks. Company is targeting 3.5 million SCM per day of peak output from two adjacent CBM blocks in Sohagpur
- ✓ Reliance Retail may spend Rs 2,500 cr for business expansion in next 3 years. The company also has plans to add 500 to 600 fuel stations.
- ✓ Reliance Industries has completed sale of its entire 76 percent interest in its East African company GAPCO to Total SA of France for an undisclosed sum.

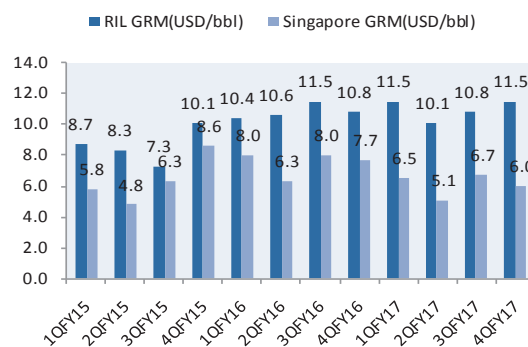
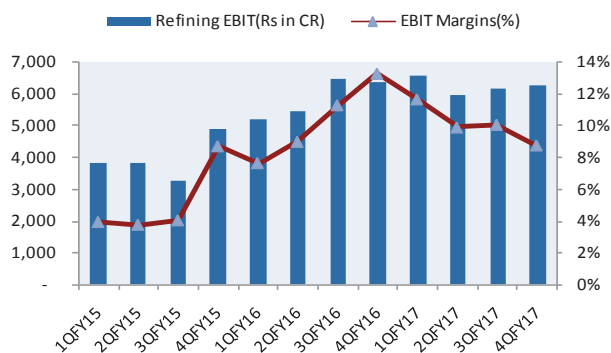
Quarterly Performance

Financials	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY %	QoQ%	FY16	FY17	YoY %
Total Volumes ('000)	18	17	18	18	18	-2%	-2%	70	70	1%
GRM(USD/BBL)	10.8	11.5	10.1	10.8	11.5	6%	6%	11	11	2%
Net Sales	59,671	71,451	81,651	84,189	92,889	56%	10%	2,93,298	3,30,180	13%
Other Income	1,953	2,378	2,393	2,736	1,936	-1%	-29%	7,479	9,443	26%
COGS	37,309	49,519	59,396	60,486	67,697	81%	12%	2,08,113	2,37,098	14%
Employee Cost	1,838	2,111	2,017	1,894	2,366	29%	25%	7,407	8,388	13%
Other Expenses	9,321	8,598	9,062	10,257	10,593	14%	3%	36,074	38,500	7%
EBITDA	11,203	11,223	11,176	11,552	12,233	9%	6%	41,704	46,194	11%
Depreciation	3,110	2,725	2,774	2,793	3,354	8%	20%	11,565	11,646	1%
Interest	842	1,206	893	1,209	556	-34%	-54%	3,691	3,849	4%
PBT	9,204	9,670	9,902	10,286	10,259	11%	0%	33,927	40,142	18%
Tax	2,351	2,581	2,708	2,719	2,201	-6%	-19%	8,876	10,201	15%
PAT	6,930	7,113	7,206	7,506	8,053	16%	7%	29,861	29,833	0%

Robust volume growth accompanied by highest GRM of 11 USD/BBL

Reliance outperformed Singapore GRM by 5.1 USD/BBL

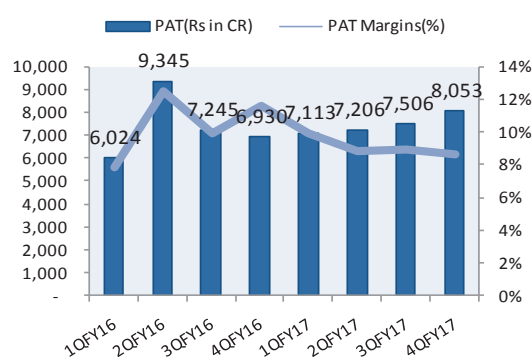
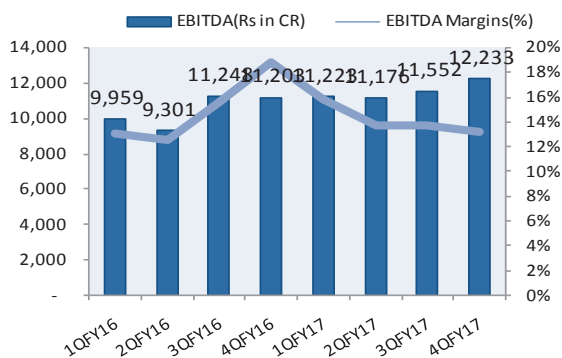
- ✓ Reliance reported Rs.92889 crore of net sales in 4QFY17 a growth of 56% over same quarter previous year. This was driven by growth across all business segments.
- ✓ EBITDA for 4QFY17 is Rs. 12233 Cr. a growth of 9% over same quarter previous year. EBITDA margin in 4QFY17 stood at 13.2%
- ✓ Reliance has reported Gross refining margin of 11.5 USD/BBL in 4QFY17 vs 10.8 USD/BBL as compared to the same quarter previous year.
- ✓ Profit after tax for 4QFY17 is Rs. 8053 Cr a growth of 16% over same quarter previous year.
- ✓ Exports increased by 25.2% to Rs. 38,718 crore in 4QFY17.
- ✓ The capital expenditure for the year ended 31st March 2017 was Rs. 114,742 crore
- ✓ Reliance Jamnagar refineries processed 17.5 MMT crude in 4Q FY17, vs 17.8 MMT crude processed in the previous quarter..
- ✓ Reliance operated 1,221 petroleum retail outlets in the country in 4QFY17



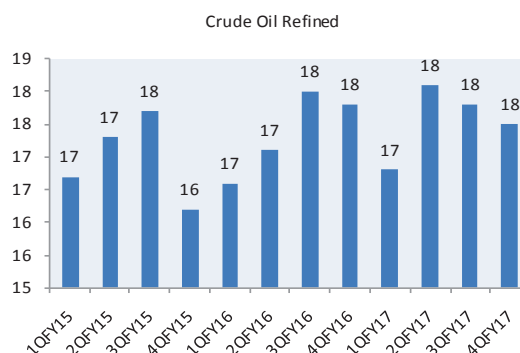
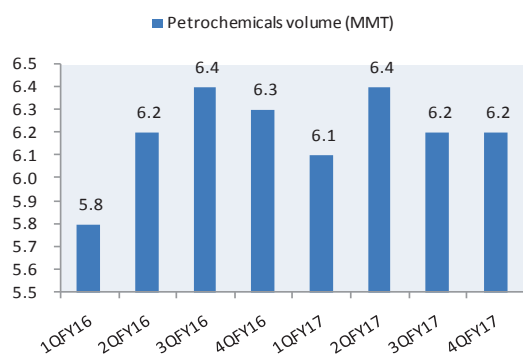
Higher expenses and depreciation pressurizes PAT

Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY15	FY16	YoY(+/-)
Gross Margin	37%	31%	27%	28%	27%	-0.10	-0.01	29%	28%	-0.01
EBITDA Margin	19%	16%	14%	14%	13%	-0.06	-0.01	14%	14%	0.00
PAT Margin	12%	10%	9%	9%	9%	-0.03	0.00	10%	9%	-0.01

- ✓ Gross Margin contracted to 27% due to mediocre performance of the Oil & Gas exploration business in 4QFY17
- ✓ EBITDA grew by 9%QoQ to Rs.12233 crore. But EBITDA Margin declined by 50bps QoQ to 13.2% on account of higher purchase cost of raw material.
- ✓ PAT margin degrew by 30bps to 8.7%QoQ on account of higher depreciation cost in 4QFY17



Volume Trend



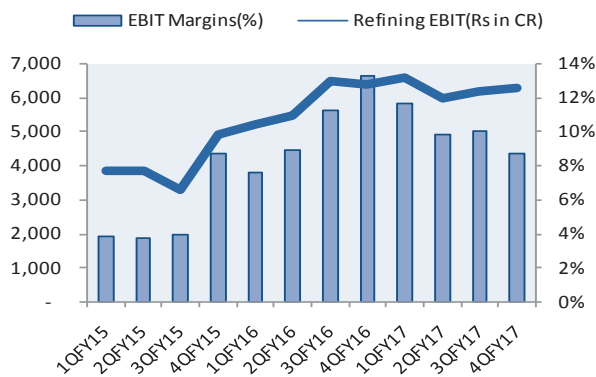
- ✓ Petro-chemicals volume remain flat QoQ to 6.2 MT in 4QFY17 but it slightly degrew by 2% YoY primarily due to increase in prices across polymers and polyester chain.
- ✓ Crude oil refined in 4QFY17 is 17.5 MT vs 17.8 MT in the previous quarter of FY17.

Investment Arguments:

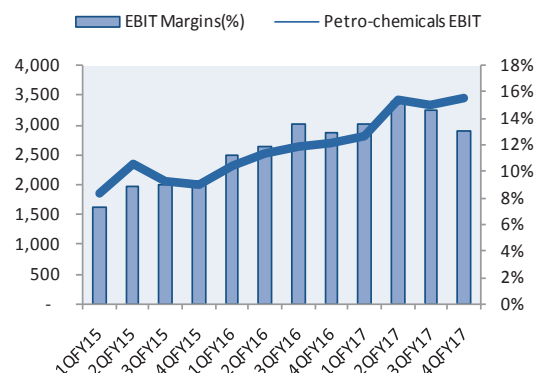
- ✓ **Expanding organised retail base-** During the quarter, Reliance Retail added 63 stores across various store concepts. At the end of the year, Reliance Retail operated 3,616 stores across 702 cities with an area of over 13.5 million square feet.
- ✓ **Re-commissioning of Petroleum outlets-** Reliance continue to re-commission its retail petroleum network; 1221 outlets are now operational. Further, growing Trans-connect customer base, credit solutions, and e-cash loading facilities have helped Reliance to more than double sales volume in FY17.
- ✓ **Strong Petro-chemicals Demand-** polymer demand registered growth of 7% during FY17. PVC demand registered highest growth rate of 10% YoY
- ✓ **Commercialisation of Jio-** Jio reached 100 Million subscribers in 170 days. This is the fastest achieved by any start-up technology company in the world. Reliance Retail's device distribution business sold 2.6 million LYF and JioFi devices during the quarter and nearly 10 million units in the financial year.
- ✓ **Attractive pricing policy of Jio can boost revenue-** Within a month of announcing the Jio Prime Offer, over 72 million Jio customers signed up for JIO PRIME. Recently Jio launched Jio Dhan Dhan Dhan. The plans start with the most affordable Rs. 309 , which provides Unlimited SMS, calling and data (1GB per day at 4G speed) for 3 months on first recharge.

Segment performance

Refining business



Petro-chemicals business



View & Valuation

Commissioning of Ethane project and commercialization of Jio has paved a way for long term growth of the company. With the rapid growing customer base of jio by adding 6 mn customers daily to its network, Jio has successfully added 100 million customers and it is continuously adding new customers. Jio can improve the revenue of the company upto a large extent. Growing demand of petro-chemicals products and re-commissioning of petroleum outlets will further improve the volume of refining segment. Reliance has also added 63 stores across various store concepts. At the end of the year, Reliance Retail operated 3,616 stores across 702 cities with an area of over 13.5 million square feet which will improve revenue of organized retail. We expect company to maintain ROE of 13% in FY18. Currently, the stock is trading at 1.89x FY17 P/BV. We maintain 'HOLD' with the target price of Rs. 1680.

Financials Snap Shot

Income Statement					Key Ratios				
Rs in Crores									
Y/E March	FY16	FY17	FY18E	FY19E		FY16	FY17	FY18E	FY19E
Revenue from Operation	2,93,298	3,30,180	4,43,483	4,93,634	ROE	13%	11%	13%	13%
Change (%)	-22%	13%	34%	11%	ROCE	8%	8%	11%	11%
EBITDA	41,704	46,194	68,392	76,153	Asset Turnover	0.5	0.5	0.6	0.6
Change (%)	12%	11%	48%	11%	Debtor Days	5.56	5.56	5.56	5.56
Margin (%)	14%	14%	15%	15%	Inv Days	57.9	57.9	57.9	57.9
Depr & Amor.	11,565	11,646	17,357	19,861	Payable Days	75	75	75	75
EBIT	30,139	34,548	51,035	56,291	Int Coverage	8.17	8.98	12.96	14.29
Int. & other fin. Cost	3,691	3,849	3,939	3,939	P/E	11	14	10	9
Other Income	7,479	9,443	7,341	8,480	Price / Book Value	1.5	1.5	1.3	1.2
EBT	33,927	40,142	54,437	60,833	EV/EBITDA	11	12	8	7
Exp Item	4,574	-	-	-	FCF per Share	(30)	(204)	26	39
Tax	8,876	10,201	14,388	16,077	Div Yield	1%	1%	1%	1%
Minority Int & P/L share of Ass.	236	(108)	-	-					
Reported PAT	29,861	29,833	40,049	44,755					
Adjusted PAT	26,484	29,833	40,049	44,755					
Change (%)	27%	0%	34%	12%					
Margin(%)	10%	9%	9%	9%					

Assumptions

	FY16	FY17	FY18E	FY19E
Crude Refined(Million Tonnes)	70	70	74	80
Petrochemicals Production(MV)	25	25	25	26
Total Oil volume(PMT+KD-D6)	8	8	8	8
Total Gas volume(PMT+KD-D6)	208	174	174	174

Balance Sheet

Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	2,948	2,959	2,948	2,948
Reserves	2,28,608	2,60,750	3,01,918	3,41,128
Networth	2,31,556	2,63,709	3,04,866	3,44,076
Debt	165192	183676	181182	181182
Other Non Cur Liab	2,249	9,025	3,401	3,785
Total Capital Employed	396748	447385	486047.89	525257.82
Net Fixed Assets (incl CWIP)	409353	518471	537523.25	564661.96
Non Cur Investments	41,512	25,639	25,639	25,639
Other Non Cur Asst	14,061	8,279	8,279	8,279
Non Curr Assets	4,71,212	5,59,989	5,79,041	6,06,180
Inventory	46,486	53,460	70,289	78,238
Debtors	4,465	8,177	6,751	7,515
Cash & Bank	11,028	3,023	6,223	9,352
Other Curr Assets	16,345	19,871	24,715	27,509
Curr Assets	1,27,785	1,46,813	1,70,536	1,95,316
Creditors	60,296	76,595	91,171	1,01,481
Provisions	3,006	4,120	5,035	5,338
Other financial liabilities	89,533	1,04,543	1,04,543	1,04,543
Other Curr Liab	10,005	20,882	15,128	16,839
Curr Liabilities	1,61,609	2,03,789	2,13,526	2,25,850
Net Curr Assets	(33,824)	(56,976)	(42,990)	(30,535)
Total Assets	598997	706802	749577.22	801495.69

Cash Flow Statement

Rs in Crores				
Y/E March	FY16	FY17E	FY18E	FY19E
PBT	35,979	40,142	54,437	60,833
(inc)/Dec in Working Capital	41,285	55,529	75,733	84,633
Non Cash Op Exp	12,916	11,646	17,357	19,861
Int Paid (+)	3,849	3,939	3,939	-
Tax Paid	(10,201)	(14,388)	(16,077)	-
others	7,128	9,331	(16,410)	(8,942)
CF from Op. Activities	39,811	54,659	44,934	59,614
(inc)/Dec in FA & CWIP	(49,662)	(1,20,764)	(36,409)	(47,000)
Free Cashflow	(9,851)	(66,105)	8,525	12,614
(Pur)/Sale of Inv	6,471	-	-	-
others	3,775	-	-	-
CF from Inv. Activities	(38,338)	(1,20,764)	(36,409)	(47,000)
inc/(dec) in NW	284	-	-	-
inc/(dec) in Debt	13,345	18,484	(2,494)	-
Int. Paid	(9,115)	(3,849)	(3,939)	(3,939)
Div Paid (inc tax)	(7,259)	(3,697)	(4,962)	(5,546)
others	(14)	-	-	-
CF from Fin. Activities	(2,759)	10,938	(11,395)	(9,485)
Inc(Dec) in Cash	(1,286)	(55,167)	(2,870)	3,129
Add: Opening Balance	12,476	11,028	3,023	6,223
Closing Balance	11,190	(44,139)	153	9,352