

RELIANCE INDUSTRIES LTD

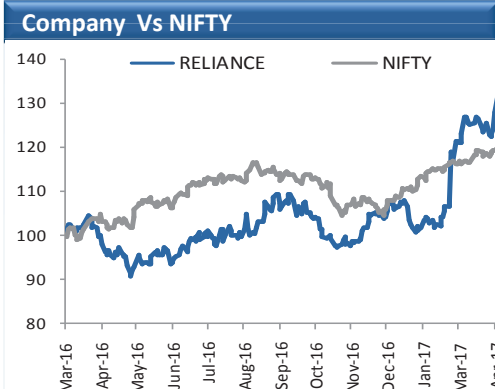
Hold
7-Apr-17

Company Update	
CMP	1434
Target Price	1680
Previous Target Price	1408
Upside	17%
Change from Previous	19%

Market Data	
BSE Code	500325
NSE Symbol	RELIANCE
52wk Range H/L	1448/925
Mkt Capital (Rs Cr)	465956
Av. Volume(,000)	677
Nifty	9258

Stock Performance			
	1M	3M	12M
Absolute	8.4	36.9	39.3
Rel.to Nifty	4.9	16.8	30.7

Share Holding Pattern-%			
	3QFY17	2QFY17	1QFY17
Promoters	46.5	46.7	46.7
Public	53.5	53.3	53.3
Others	0.0	0.0	0.0
Total	100.0	100.0	100.0



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Recently Reliance Jio has withdrawn Jio summer surprise offer on TRAI's advice. Now to avail Jio services users have to opt for subscription plans. We expect that this move will further boost the revenues from Jio. According to management 72mn customers have already opted for Jio prime membership till 31 March 2017. As per the Jio's management estimates, EBITDA margin for Jio in FY18 will be more than 50%. Recently Jio has announced booster packages starting from Rs 11 going up to Rs 301 to provide additional data to its users. . On the Petro-chemicals front, Reliance has commissioned the first phase of new Paraxylene (PX) project at Jamnagar in Q3FY17 and with the commissioning of this plant, PX capacity will be more than double from 2.0 to 4.2 MTPA. Further management has guided for re-opening of its 1400 retail outlets, which will boost the revenue of petrochemicals segment.

Outlook

Jio is rapidly capturing market share by providing attractive offers to its prime members and has also promised to offer 20% more data than any other rivals. Now Jio is targeting to boost its revenue by retaining its customers. Recently Reliance has rallied smartly and has crossed our target price of Rs. 1408. We are still optimistic in this stock and hence we recommend "HOLD" rating for our long-term investors with the revised target price of Rs. 1680

Corporate Highlights For The Quarter

- Gross Refining Margin (GRM) of USD 10.8/bbl for the quarter
- In December 2016, RIL commissioned the first phase of new Paraxylene project at Jamnagar
- Outstanding debt as on 31st December 2016 was Rs.194,381 cr compared to Rs. 180388 cr as on 31st March 2016.
- The capital expenditure for 3Q FY 17 was Rs. 37,791 crore.
- Interest cost was at Rs. 1,209 crore in 3QFY17 as against Rs. 945 crore in corresponding period of FY16, increase is primarily on account of higher average exchange rate for the quarter.
- Reliance has operated 1,151 petroleum retail outlets in the country in 3QFY17.
- Exports from India operations were higher by 4.0% at Rs. 38,038 crore

	Rs,Cr				
Financials	2012	2013	2014	2015	2016
Sales	358501	397062	434460	375435	276544
EBITDA	34508	33045	34799	37364	44257
Net Profit	19724	20879	22493	23566	27630
EPS	60	65	70	73	85
P/E	12.4	12.0	13.4	11.3	12.3

Petrochemical business

3Q FY17 revenue from the Petrochemicals segment increased by 17.8% YoY to Rs. 22,854 crore, primarily due to increase in prices across polymers and polyester chain. Petrochemicals segment EBIT increased sharply by 25.5% to Rs. 3,301 crore, supported by favorable product deltas and marginal volume growth.

E&P Business

3Q FY17 revenues for the Oil & Gas segment decreased by 31.0% YoY to Rs. 1,215 crore. The decline in revenue was led by lower upstream production and lower domestic gas price realization. The unfavorable upstream price environment impacted segment EBIT which was at Rs. (295) crore, as against Rs. 258 crore in the corresponding period of the previous year. Domestic production (RIL share) was at 23.1 Bcfe, down 24% YoY. For the accounting quarter, upstream production (RIL Share) in US Shale business was 41.4 Bcfe, down 19% YoY basis.

Organised Retail:

Revenues for 3Q FY17 grew by 47.2% Y-o-Y to Rs. 8,688 crore from Rs. 5,901 crore. The increase in turnover was led by growth across all consumption baskets. The business delivered strong PBDIT of Rs. 333 crore in 3Q FY17 as against Rs.237 crore in the corresponding period of the previous year. During the quarter, Reliance Retail added 111 stores across various store concepts. Trends crossed a milestone of 300 stores during the quarter. At the end of the quarter, Reliance Retail operated 3,553 stores across 686 cities with an area of over 13.25 million square feet.

Refining and Marketing:

During 3Q FY17, revenue from the Refining and Marketing segment increased by 7.5% YoY to Rs. 61,693 crore (\$ 9.1 billion). Segment EBIT was at Rs. 6,194 crore, down 4.3% YoY on account of lower volumes and decline in GRMs. GRM for 3Q FY17 stood at \$ 10.8/bbl as against \$ 11.5/bbl in 3Q FY16. Reliance GRM outperformed Singapore complex margins by \$ 4.1/bbl. Reliance Jamnagar refineries processed 17.8 MMT in 3Q FY17, marginally lower on QoQ. As at the end of the quarter, Reliance operated 1,151 petroleum retail outlets in the country.

Digital service

During the quarter, Jio announced the launch of the 'Jio Happy New Year Offer ("JNO")' effective from 4th December 2016. Under the JNO, all the Jio subscribers are entitled to certain special benefits, which comprise of Jio's Data, Voice, Video and the full bouquet of Jio applications and content, absolutely free, up to 31st March 2017. Till 31st Dec 2016 there were 72.4 million subscribers on the network. Jio is the only operator in India to deploy pan-India LTE on a sub-GHz band, in addition to pan-India 1800MHz and 2300MHz spectrum band.

Key Operating Metrics:

	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
GRM(\$/bbl)	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6	7.6
Singapore GRM	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Premium	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Exchange rate	62	62	62	62	62	62	62	62	62	62	62	62	62
GRM(Rs/bbl)	472	472	472	472	472	472	472	472	472	472	472	472	472
Crude Refined(MT)	17	17	17	17	17	17	17	17	17	17	17	17	17
Crude Oil Price(USD/bbl)	111	111	111	111	111	111	111	111	111	111	111	111	111
Crude Revenue(Rs Cr/MMT)	230,691	230,691	230,691	230,691	230,691	230,691	230,691	230,691	230,691	230,691	230,691	230,691	230,691
Trend of Crude revenue	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0

Refining Business

	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Refining Revenue	110,045	107,676	96,668	98,081	103,590	81,777	56,442	68,729	60,768	57,385	48,064	56,568	60,527	61,693
Refining EBIT	3,243	3,240	3,962	3,814	3,844	3,267	4,902	5,252	5,461	6,491	6,394	6,593	5,975	6,194
Refining EBIT Margin	3%	3%	4%	4%	4%	4%	9%	8%	9%	11%	13%	12%	10%	10%

Petrochemicals

	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Petrochemicals Revenue	27,128	27,121	26,541	25,398	26,651	23,001	21,754	20,858	21,239	19,398	20,915	20,718	22,422	22,854
Petrochemicals EBIT	2,381	2,115	2,150	1,863	2,361	2,064	2,003	2,338	2,531	2,639	2,713	2,806	3,417	3,301
Petrochemicals EBIT Margin	9%	8%	8%	7%	9%	9%	9%	11%	12%	14%	13%	14%	15%	14%

Exploration & Production

	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Oil and Gas Revenue	2,682	2,926	2,798	3,178	3,002	2,841	2,513	2,057	2,067	1,765	1,638	1,340	1,327	1,215
Oil and Gas EBIT	956	607	762	1,042	818	832	489	32	242	90	14	(312)	(491)	(295)
Oil and Gas EBIT Margin	36%	21%	27%	33%	27%	29%	19%	2%	12%	5%	1%	-23%	-37%	-24%

Retail

	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17
Organized Retail Revenue	3,470	3,941	3,653	3,999	4,167	4,686	4,788	4,698	5,091	6,042	5,781	6,666	8,079	8,688
Organized Retail EBIT	70	38	24	81	99	133	104	111	117	147	131	148	162	231
Organized Retail EBIT Margin	2%	1%	1%	2%	2%	3%	2%	2%	2%	2%	2%	2%	2%	3%

Investment Rationale

- Massive Capex programme coming onstream: RIL has spent ~70% of the planned USD1850Cr capex (this number was USD1650Cr earlier) on its four key projects (petcoke gasification, polyester expansion, off-gas cracker and ethane sourcing). We believe that the three expansion projects: petcoke gasifier, refinery off-gas cracker, and ethane intake facilities will be fully operational by FY17E. The company's massive capex programme will push future earnings.
- Telecom launch in FY18: The commercial launch will give us better visibility on execution, business outlook, and earnings.

About the Company

RIL is the largest private player in the refining, petrochemical and E&P sectors in India. The petrochemicals segment includes production and marketing operations of petrochemical products which include, polyethylene, polypropylene, polyvinyl chloride, polybutadiene rubber, polyester yarn, polyester fibre, purified terephthalic acid, paraxylene, ethylene glycol, olefins, aromatics, linear alkyl benzene, butadiene, acrylonitrile, caustic soda and polyethylene terephthalate. The refining segment includes production and marketing operations of the petroleum products. The oil and gas segment includes exploration, development and production of crude oil and natural gas. RIL has made significant investments in US shale gas. In terms of EBIT, Refining contribute 60% and Petrochemicals 30%. RIL is also expanding its presence in the areas of consumer retailing and telecom.

Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16
Revenue (Net of Excise D	397062	434460	375435	276544
Other Income	7867	9001	8613	7612
Total Revenue	404929	443461	384048	284156
COGS	332250	363022	294046	189054
GPM	84%	84%	78%	68%
Other Expenses	26588	31067	37763	35509
EBITDA	33045	34799	37364	44257
EBITDA Margin (%)	8%	8%	10%	16%
Depreciation	11232	11201	11547	12916
EBIT	21813	23598	25817	31341
Interest	3463	3836	3316	3608
PBT	26217	28763	31114	35345
Tax	5331	6215	7474	8264
Tax Rate (%)	20%	22%	24%	23%
Reported PAT	20879	22493	23566	27630
Dividend Paid	2949	3123	3268	3791
No. of Shares	323	323	324	324

RATIOS

	FY13	FY14	FY15	FY16
EPS	65	70	73	85
Book Value	564	615	675	752
DPS	9	10	10	12
Payout (incl. Div. Tax.)	14%	14%	14%	14%
Valuation(x)				
P/E	12	13	11	12
Price / Book Value	1.4	1.5	1.2	1.4
Dividend Yield (%)	1%	1%	1%	1%
Profitability Ratios				
RoE	11%	11%	11%	11%
RoCE	9%	8%	8%	8%
Turnover Ratios				
Asset Turnover (x)	1.1	1.0	0.7	0.5
Debtors (No. of Days)	9	8	5	6
Inventory (No. of Days)	50	48	52	62
Creditors (No. of Days)	46	51	58	81
Net Debt/Equity (x)	0.4	0.5	0.6	0.6

BALANCE SHEET

	FY13	FY14	FY15	FY16
Share Capital	2936	2940	2943	2948
Reserves and surplus	179094	195730	215539	240695
Shareholders' funds	182030	198670	218482	243643
Long term Debt	70960	101016	120777	142000
Total Borrowings	89322	133808	148742	165954
Non Current liabilities	12119	13025	23619	31439
Long term provisions	531	290	1554	1869
Short term Provisions	4557	4446	5392	1636
Current liabilities	77912	82364	110588	161916
Total liabilities	362357	428843	504486	606214
Net Fixed Assets	183439	232911	318523	419722
Non Current Investments	13979	26867	25437	37005
Current investments	28869	33735	51014	39928
Current assets	155914	151069	136577	126587
Total Assets	362357	428843	504486	606214

CASH FLOW STATEMENT

	FY13	FY14	FY15	FY16
OP/(Loss) before Tax	26217	28763	31114	35345
Depreciation	13393	11201	11547	12916
Direct Taxes Paid	4824	6213	6435	8264
Operating profit before v	34373	38444	38994	52000
CF from Op. Activity	36918	43261	34374	104743
Movement in Loans& Ad	-2610	-426	-232	1917
Capex	-30726	-60087	-63364	-101199
CF from Inv. Activity	-27650	-73070	-64898	-99282
Repayment of LTB	19182	28215	29413	21223
Interest Paid	-4626	-5619	-6149	-3316
Divd Paid (incl Tax)	-2949	-3123	-3268	-3790.92
CF from Fin. Activity	408	13713	8444	10105.1
Inc/(Dec) in Cash	9676	-16096	-22080	15566.1
Add: Opening Balance	40780	50456	34552	12545
Closing Balance	50456	34360	12472	28111.1