RESULT UPDATE

RELIANCE INDUSTRIES

GRM rebound following a difficult Q1

India Equity Research| Oil, Gas and Services

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Reliance Industries (RIL) continued to deliver steady earnings with Q1FY20 consolidated PAT at INR101bn beating estimate by 2.3%. EBITDA at INR208bn (adjusted for gains from Ind-AS 116: INR4.8bn) was broadly in line with estimate. Key highlights: 1) RIL has announced that the INR252bn investment by Brookfield in the tower InvIT will be used primarily for repayment of existing debt; 2) it has expanded coker capacity to leverage IMO, enabling it to convert HSFO in to gasoil; 3) refining in Q1FY20 delivered a solid beat on EBITDA (6% above estimate) despite lower GRM (GRM: USD8.1/bbl, estimate: 8.3/bbl) due to surge in refinery utilization; 4) petchem beat estimate 5% due to ramp up of cheaper ethane imports replacing costlier naptha and propane; and 5) RJIO's earnings came in line while capex continues to remain elevated accounting for bulk of the INR220bn invested during the quarter. With no clarity on start of petcoke gasifier, we revise down refining and petchem earnings (lower polymer margins) leading to 4.5% cut in FY20E EPS for RIL and 3% cut in TP to INR1,652/share (INR1701 earlier). Maintain 'BUY'.

Refining on the path to recovery; petchem remains weak

Although petchem delivered a beat led by continued improvement in feedstock flexibility, EBITDA was down 6% QoQ. Weakness in polymer chain margins continues to persist led by a glut in the US being exported to countries ex China in the light of trade sanctions. Outlook for GRM has improved (Current: USD 7.4/bbl, Q1FY20: USD 3.5/bbl) with a significant recovery in gasoline cracks (Current: USD 9.6/bbl). Diesel cracks have started picking up in anticipation of IMO & RIL is well placed to leverage this.

Investments in telecom/media remain elevated

Consolidated capex for 1Q came in at over INR 220bn, with 55% accounted by Jio (Wireless services: INR 85bn, Platforms and apps: INR 30bn). Another INR 60bn was incurred on coker and upstream. Commercial launch of FTTH, e-commerce and POS devices is expected this year, although exact timeline remains unclear.

Outlook and valuation: Robust refining outlook; retain 'BUY'

We expect GRM to recover to USD11.7/bbl by FY21, driving 18% EBITDA CAGR over FY19-21, accounting for a third of incremental EBITDA during the period. We continue to retain **'BUY/SO'** with SOTP-based TP of INR1,652/share (10.4x FY21 EV/EBITDA).

Financials **(INR mn)**

Year to March	Q1FY20	Q1FY19	*YoY %*	Q4FY19	*QoQ %*	FY19	FY20E	FY21E
Net revenues	1613,490	1330,690	21.3	1,416,340	13.9	5,671,350	4,477,319	5,589,883
EBITDA	213,150	206,610	3.2	208,320	2.3	839,180	969,507	1,159,998
AdjProfit	101,040	94,590	6.8	103,620	(2.5)	395,880	476,071	572,019
Adj Diluted EPS	15.9	14.9	6.8	16.3	(2.5)	66.8	80.3	96.5
Diluted P/E (x)						24.7	20.6	17.1
EV/EBITDA (x)						15.5	12.5	10.4
ROAE (%)						11.5	10.9	10.9

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Equalweight

MARKET DATA *(R: RELI.BO, B: RIL IN)*

CMP	: INR 1,249
Target Price	: INR 1,652
52-week range (INR)	: 1,418 / 1,016
Share in issue (mn)	: 6,339.1
M cap (INR bn/USD mn)	: 7,918 / 116,473
Avg. Daily Vol.BSE/NSE('000)	: 9,553.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	46.2	46.2	46.2
MF's, FI's & BK's	11.8	11.8	12.2
FII's	23.8	23.8	23.5
Others	18.3	18.3	18.1

** Promoters pledged shares : NIL*
(% of share in issue)

PRICE PERFORMANCE (%)

	Stock	Nifty	EW O & G Index
1 month	(3.6)	(3.2)	(6.5)
3 months	(4.9)	(0.1)	(4.0)
12 months	23.3	5.8	1.9

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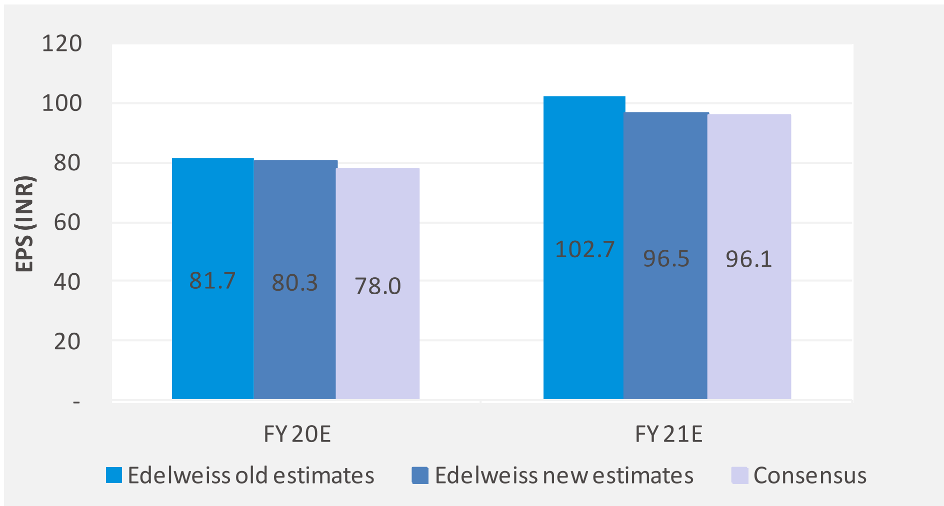
Table 1: We expect PAT CAGR of 15%+ till FY23

(INR bn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY23E
Segmental EBITDA								
Petrochemical EBITDA	137	165	259	376	365	384	424	451
Refining EBITDA	267	286	290	230	305	318	382	391
Retail EBITDA	9	12	24	62	82	110	144	174
Telco EBITDA	0	0	67	151	215	292	351	398
Consolidated EBITDA	417	462	642	839	970	1,160	1,361	1,511
Consolidated net profit, RHS	300	299	361	396	476	572	695	782
Net profit (ex Telco)	300	299	354	380	428	499	605	685
PAT growth (YoY)			*21%*	*10%*	*20%*	*20%*	*21%*	*13%*
PAT growth (CAGR over FY19)					*20%*	*20%*	*21%*	*19%*
EBITDA growth (CAGR over FY19)					*17%*	*20%*	*19%*	*17%*

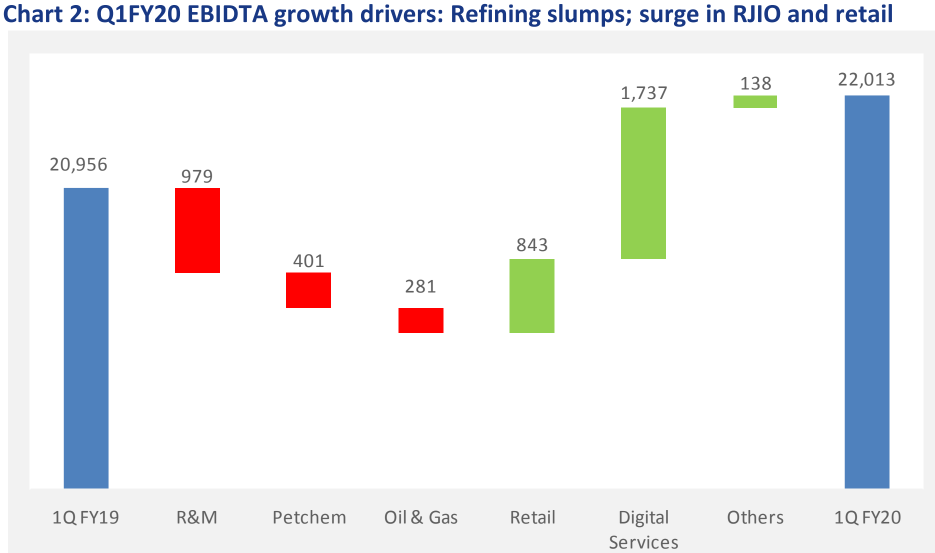
Source: Edelweiss research

Chart 1: EPS (Our estimates vs consensus)



Source: Edelweiss research

Chart 2: Q1FY20 EBIDTA growth drivers: Refining slumps; surge in RJIO and retail



Source: Company, Edelweiss research

No material impact due to Ind-AS 116

The accounting standards have been changed to Ind-AS 116 which is applicable from April 1, 2019. The major impact seen for RIL and its subsidiaries is on EBITDA which is a positive impact being offset by interest and depreciation charge. Second impact is at PBT level which is immaterial. Ind-AS 116 provides a specific exemption for FibreUse Agreements, which are not to be treated as long term lease arrangements.

- The company has adopted Ind-AS 116 which has led to INR3.72bn impact on EBITDA (320bps) while the impact on the balance sheet is INR63.3bn.
- Ind-AS 116 is applicable only to the real estate rent component of the tower lease; this is applicable only to non-cancellable contracts having commitment period over one year. In many cases, the company has lock in of less than a year, such tenancies are outside the scope of Ind-AS 116.
- Ind-AS 116 is not applicable to optic fiber rental as it provides a specific exemption for Fibre Use Agreements, which are not to be treated as long term lease arrangements

Fig. 1: What is covered under Ind-AS 116

Ind AS 116 – Coverage and Scoping

Reliance Industries Limited

Coverage under Ind AS 116	Outside the scope of Ind AS 116
➢ Assets is specifically identified	➢ Not an identified asset : ▪ Capacity arrangement (e.g. optic fiber; Para B20*): that is not physically distinct is not consider an identified assets unless it is substantially all the capacity of the asset; Common carrier (* refer slide on Para B20 of Ind AS 116)
➢ Lessee have control of the assets	➢ Service Contract: In case an arrangement has component of service and rent, then service component is excluded and rent component is included
➢ Fixed commitment / Non cancellable commitment	➢ Where there is no fixed commitment : Any commitment based on usage per unit is considered as a variable payment and not a liability
➢ No exit clause	➢ Short-Term Leases (up to 12 months) / Cancellable arrangement / Contains exit clause
For coverage, all the above conditions have to be met	➢ Leases of Low Value Items (Para 5): Leases where underlying assets is of low value are altogether excluded

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Fig. 2: Financial impact breakdown

Ind AS 116 – Impact on RIL and Subsidiaries

Entity	Arrangement	Scope of Ind AS 116	Basis of Conclusion	Impact on Balance Sheet (₹ crore)	Impact (₹ crore) EBITDA
RIL	(a) Pipeline arrangement – RGPL	Yes	Dedicated pipeline for Ethane with present value for period of non-cancellable contractual payment	2,964	67
	- (b) R&M - Storage tankages	Yes	Dedicated storage tanks with present value for the period of non-cancellable contractual payments	117	12
Impact at RIL Standalone Level: (sub-total)				**3,081**	**79**
RJIL	(a) Tower agreement	Yes	Present value of the rent component for the period of non-cancellable contracts for specifically identified assets/portion within the assets	6,633	372
Other Subsidiaries	Lease of office premises	Yes	Non cancellable lease commitment	190	16
Impact at RIL Consolidated Level:				**9,904**	**467**

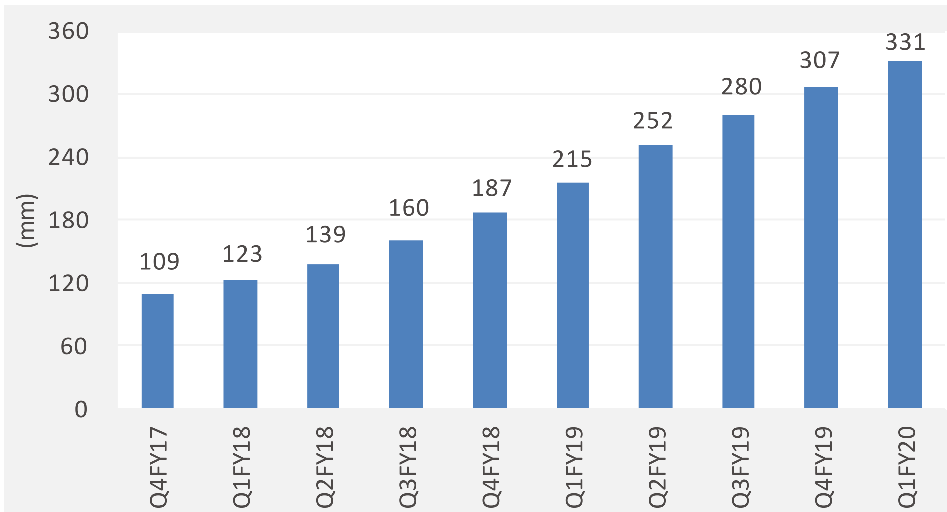
- **Positive EBITDA impact offset by interest and depreciation charge**
- **PBT level impact not material**

Source: Company

RJIO: Another quarter of robust growth

- RJIO reported lower-than-expected revenue growth (up 5.2% QoQ versus 6.2% expected) due to sharper-than-expected decline in ARPU to INR122 (INR124 expectation) from INR126 QoQ. Management attributed ARPU decline to: 1) customers moving to longer term plans; 2) increasing proportion of low-ARPU JioPhone users; and 3) higher promotion of digital recharge leading to higher cash-back and lower ARPU during the quarter. Interestingly, despite World Cup and IPL, the bump-up due to data packs was absent.
- RJIO's adjusted margin dipped 220bps QoQ to 36.8% (38.6% expectation) due to higher network operating expenses due to payout to tower and fiber InvIT. The expenses to InvIT are even higher as the bulk of the cost relating to fiber InvIT payment is capitalised. Reported EBITDA margins were aided by Ind-AS 116 adoption (320bps) and lower access charges (260bps). Although EBITDA margin is lower than expected, it is largely due to higher network cost related to payout to InvIT. However, other costs declined more than expectation, which is a positive.
- RIL has concluded stake sale in tower InvIT, but the valuations are commercial terms are unclear.
- User engagement matrix remained strong with 11.4GB data usage per subscriber.

Chart 3: Robust addition—RJIO added 24mn subscribers in Q1FY20



Source: Company, Edelweiss research

Table 2: RJIO—Q1FY20 financial snapshot

	Q1FY20	Q4FY19	% QoQ
Revenue from Operations	**116,790**	**111,060**	**5.2**
Network Operating expense	38,240	34,010	12.4
Access charges (net)	8,510	10,990	(22.6)
Employee benefits expenses	3,920	4,580	(14.4)
Selling and distribution expenses	3,450	3,290	4.9
Other expenses	3,100	3,130	(1.0)
Operating expenses other than spectrum	**57,220**	**56,000**	**2.2**
License fee / Spectrum charges	12,870	11,800	9.1
EBITDA	**46,700**	**43,260**	**8.0**
EBITDA margin (%)	***40***	***39***	***2.7***
Depreciation	16,570	17,440	(5.0)
EBIT	**30,130**	**25,820**	**16.7**
Less: Interest cost	16,600	12,940	28.3
Add: Other income	160	30	433.3
Profit / (loss) before tax	**13,690**	**12,910**	**6.0**
Current tax	2,950	2,780	6.1
Deferred tax	1,830	1,730	5.8
Less: Provision for tax	**4,780**	**4,510**	**6.0**
Net Profit / (Loss)	**8,910**	**8,400**	**6.1**

Source: Company

InvIT Fund Raise

- Reliance industries entered into agreement with Brookfield Infrastructure Partners L.P. and its affiliates for an investment of INR252bn into Tower InvIT; this will be used to repay certain existing financial liabilities of Reliance Jio Infratel and to acquire its 49% stake in the tower company.
- All the dues (INR120bn) that RIL has to the tower company will get repaid.
- The company is also working on the deal of the Fiber assets which is also expected to be completed soon

ARPU and subscriber addition

- Subscriber addition and user engagement remains strong .
- ARPU decline is due to lower number of days in the quarter and increasing proportion of JioPhone customers who are on-boarded with Monsoon Hungama offer where customer pays INR99 for 28 days unlimited calling and 0.5GB daily data; Effectively ARPU for Monsoon Hungama customers is ~INR86.
- See demand coming from rural area as rural broadband penetration in at 19%; Affordable devices to drive adoption.
- Planning t on-board 20mn small merchants for connecting in new commerce
- On-net traffic is increasing steadily; due to bundled plans, there is tendency to make calls from RJIO network.

Network

- Getting close to 99% population coverage; getting first time mobile customers due to this
- Expect mobility capex to go down significantly due to rollout completion; it will be largely for decongestion; capex will be targeted largely towards capacity improvement through infill sights, small cell, WiFi etc.
- Network utilization is in early 20s; solving congested areas through densification.
- RJIO added ~65,000 BTS during the quarter (including (+ small cells and Wi-fi points).
- RJIO Q4FY19 capex was INR215bn versus INR140bn in Q3FY19.

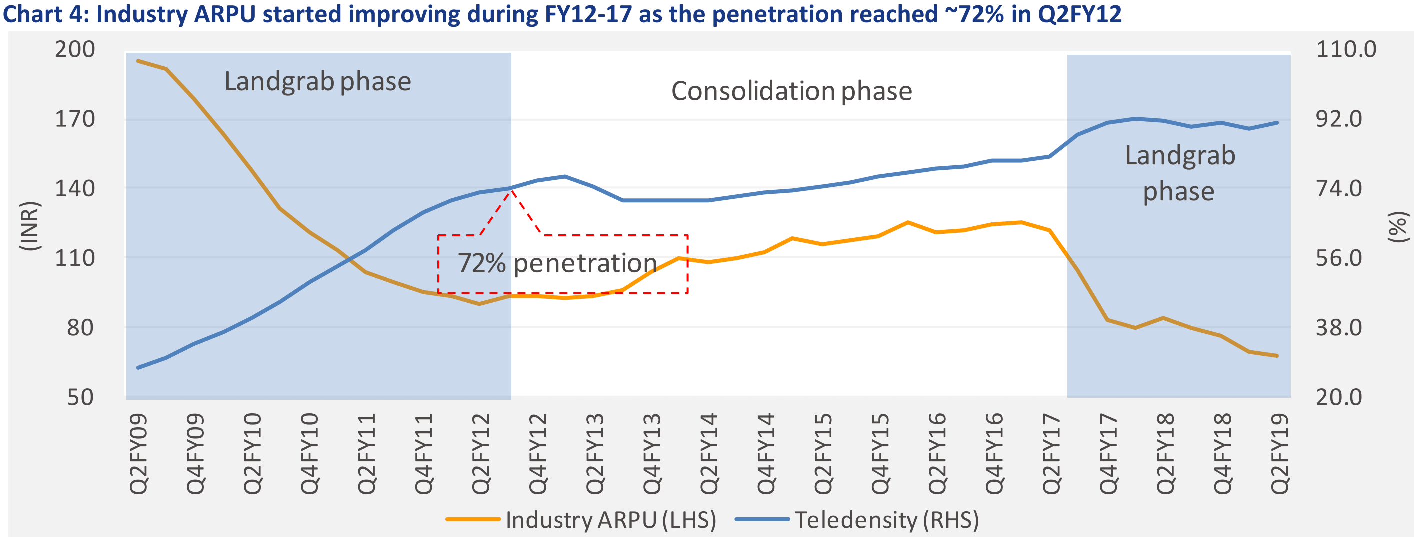
FTTH and Jio Home Automation services

- Working on rolling out FTTH in 1600 cities and towns, earlier plan was 1100 cities.
- Same management of Hathway and Den will continue.
- Waiting for CCI approval before meaningfully start engaging with Den and Hathway.

Penetration reaching the tipping point

We estimate telecom operators to raise prices in H2FY20 as mobile broadband subscriber penetration reaches ~65%. Typically, in a market characterised by low penetration of services, providers' quest for market share to gain economies of scale drives down prices, fuelling price wars. However, as investment requirements mount and relative attractiveness of balance market wanes, weaker players consolidate and participants start favouring pricing over incremental market share. We have seen this play out in India's telecom market (FY12-17), in China & Japan post 4G launch and Netflix's evolution in the US. We believe, while penetration of services is a vital metric, other factors such as the number of players, their leverage, market share aspirations, etc., also impact at the margin.

Chart 4: Industry ARPU started improving during FY12-17 as the penetration reached ~72% in Q2FY12



Source: TRAI, Edelweiss research

RJIO close to key subscriber benchmark

RJIO spearheaded the pricing disruption in India. After 10 quarters since launch and achieving 30% revenue market share (RMS), it is important to pause and take stock where the company stands now versus its objectives. RJIO management, during launch, had stated its ambition of 400mn subscribers and 50% RMS in an INR3.0tn market (by FY21 versus INR1.4tn currently) with 50% EBITDA margin. Compared to its aspiration, although the company has 30% RMS and significantly higher EBITDA margin (39% currently) than peers, its ROCE is meagre 3.3% due to high capital employed. Hence, we believe that after achieving one of its key goals—400mn subscribers in H2FY20—RJIO will hike prices to improve return ratios.

Fig. 3: RJIO management expectations at the time of launch and current status

INDUSTRY	FY21E	Q3FY19
Voice Revenue vs Data Revenue	Marginal voice revenue with data revenue growth offset voice revenue decline	Significant reduction in voice revenue, but not adequately compensated by data revenue
Industry Size	INR3tn by FY21	TTM at INR1.4tn
Data Realisation	INR50/GB in FY21	~INR10/GB
Total no. of SIMs in Industry	0.8bn SIMs with no voice arbitrage	Total SIMs count at 1.18bn
RJIO		
Revenue market share	Expects to achieve > 50%	Currently at 30%
EBITDA Margin (%)	Expects to achieve > 50%	39% EBITDA margins in Q3FY19

Source: Company, Edelweiss research

Industry deleveraging mandates pricing recovery

We believe, sale of non-core assets by all the three telecom operators will be a key trigger for industry recovery. The telecom industry is saddled with ~INR4tn net debt and 9.0x net-debt to TTM EBITDA. This has prompted massive deleveraging drive by telecom companies by equity infusion (INR500bn) as well as sale of non-core assets (pegged at a staggering INR2,270bn led by RJIO). However, weak financials of telecom operators—customers of fiber and tower assets—could weigh on investors' appetite in buying these assets. Hence, improvement in ARPU leading to industry recovery is necessary for all operators to deleverage by selling non-core assets. Sale of non-core assets is positive for the industry as besides deleveraging operators' balance sheets, it will boost capex productivity, thereby reducing capital requirement.

Table 3: The great Indian telecom sector deleveraging plan

INR bn	Bharti Airtel	Vodafone Idea	Reliance Jio	Total
Equity (rights issues)	250	250	-	**500**
Non core asse sale	450	250	1,500	**2,200**
Tower	*250*	*50*		***300***
Fiber	*200*	*200*		***400***
Other	70	-		**70**
Total	**770**	**500**	**1,500**	**2,770**

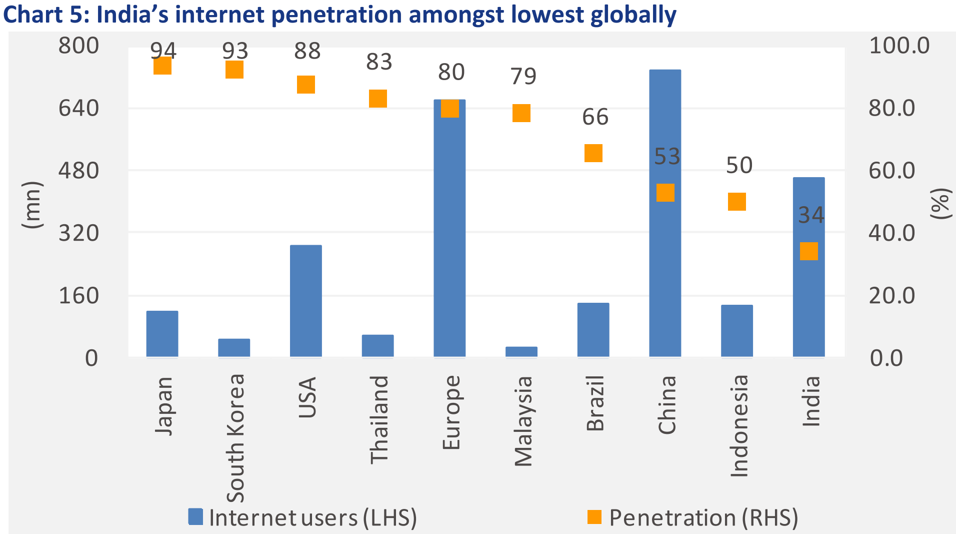
Source: Companies, Edelweiss research

Ample growth potential for RJIO

There is robust growth in the number of Jio subscribers with 400mn subscribers by the end of 2019. This big subscriber base for cross-selling will add to Jio's home broadband and enterprise. Also, we expect launch of some innovative products like Jio Cable (using phone to watch channels and movies on TV), car connect (Jio Motive) and VoWiFi (improve indoor coverage) which will increase data usage.

We expect fiber rollout in India to increase significantly as: 1) the government continues to invest in building network to bridge the digital divide & strengthen the country's defence network; 2) mobile operators invest in improving backhaul to cater to burgeoning data demand; and 3) broadband service providers aggressively expand fiber installations to cater to high speed data by using FTTH/FTTB.

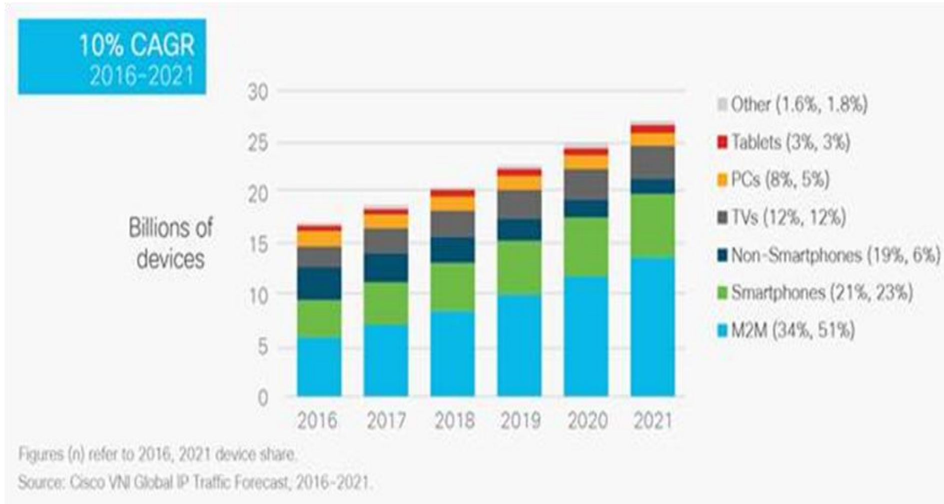
Chart 5: India's internet penetration amongst lowest globally



Source: Internetworldstats.com, Edelweiss research

Cisco VNI projects an increase of 2.4x in M2M connections, from 5.8bn in 2016 to 13.7bn by 2021, accounting for 1.75 M2M connections for each member of the global population. As there could be launch of some innovative products for consumers, it will drive more data usage.

Fig. 4: Rapid growth in global devices and connections



Source: Cisco VNI global IP traffic forecasts, 2016-2021

Higher data consumption due to increase in video consumption will drive bit rate for ultra-high-definition (UHD) video ~18Mbps more than 2.5x high-definition (HD) video bit rate and also 9x more than standard-definition (SD) video bit rate.

Digital services in India: A huge market

RIL believes the digital service market in India offers great potential due to: 1) a **rapid shift of voice revenue to data**: RJIO expects data revenue to jump by INR1tn and voice market to plunge by INR1tn, while overall telecom industry revenue would reach INR3tn by FY21 (from INR2tn currently); 2) **higher data ARPU**: 400mn subscribers can spend over INR500 on average per month and 400mn subscribers can spend over INR300 ARPU on digital services; and 3) **capacity edge ensuing dominance**: RJIO has 4.7x the capacity of the entire industry & quality offerings will aid it corner 50% revenue market share (INR1.5tn) & EBITDA margin of >50% (INR750bn).

Table 4: Subscribers can afford valued-added digital services offered by RJIO

	UOM	Smartphone users	Feature phone users
Devices in circulation	Mn	263	496
Average SIM / user		1.19	1.28
ARPU per VLR SIM	INR	277	134
Effective ARPU per user	INR	329	172

	Mobile users
Subscribers in 2009	392mn
ARPU in 2009	INR179
Equivalent ARPU in 2017 (adj. For nominal PCI	INR530

Source: Company

High ARPU mobile broadband subscriber base addition key

We believe, with shift of the subscriber base to smartphones, the mobile broadband subscriber base is a key parameter to track for telecom companies. Smartphones ARPU is suppressed in India and industry recovery will be largely driven by higher pricing for smartphone subscribers. Hence, companies with higher proportion of mobile broadband subscribers will be able to drive higher ARPU improvement.

RJIO has 59% mobile broadband subscriber base and we expect it to reach 400mn by H2FY20. Bharti and Vodafone Idea have a substantial number of feature phone subscribers and marginal subscribers. As the mobile broadband subscriber base for Bharti and Vodafone Idea increases, revenue and EBITDA numbers will also improve.

Chart 6: ARPU higher for smart phone users

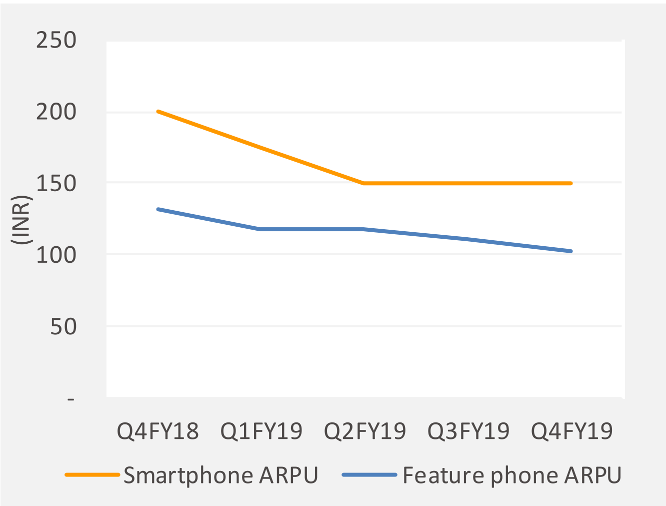
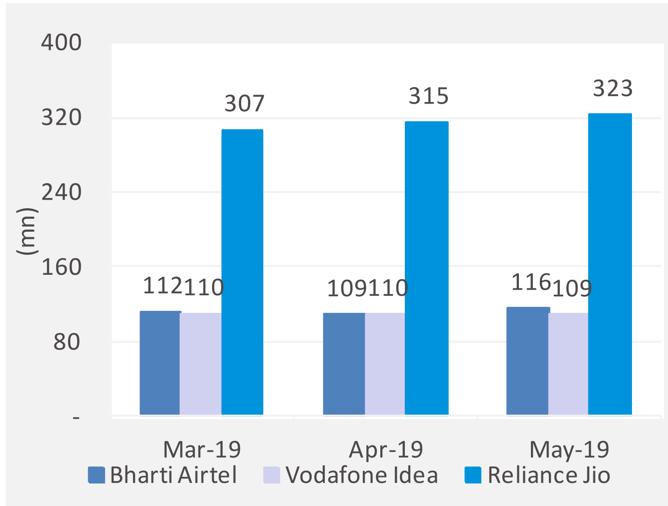
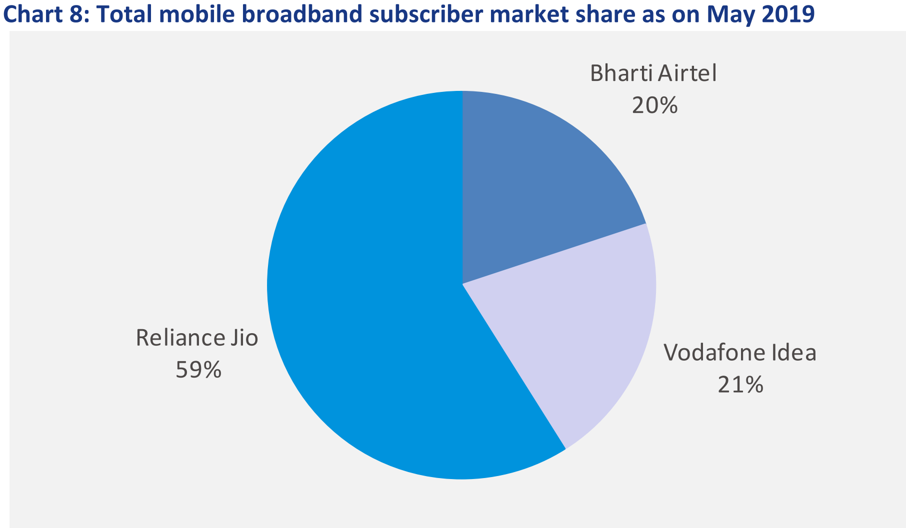


Chart 7: RJIO leads in mobile broadband subscribers



Source: TRAI, Edelweiss research

Chart 8: Total mobile broadband subscriber market share as on May 2019



Source: TRAI, Edelweiss research

Commoditisation of voice necessitates data volume market share

With shift to bundled plans offering unlimited voice usage the significance of voice volume has declined and that of data volume has increased proportionately. Hence, higher data usage on the network is a key monetisable asset for operators and higher network usage is critical for higher revenue market share.

Averaging ~11GB data consumption per customer per month, RJIO leads the pack with 60% data volume share. Bharti has posted strong ~22% data volume CQGR over the past two quarters, substantially increasing data usage/customer/month to 10.8GB in Q4FY19 from 7.7GB in Q1FY19. Vodafone Idea with 18% data market share has the lowest data consumption/customer/month at 6.6GB. This we attribute to lower 4G population coverage as well as network capacity. We expect the company's data volume traction to improve as network integration has been successfully concluded.

Chart 9: Data volume growth strong for Bharti

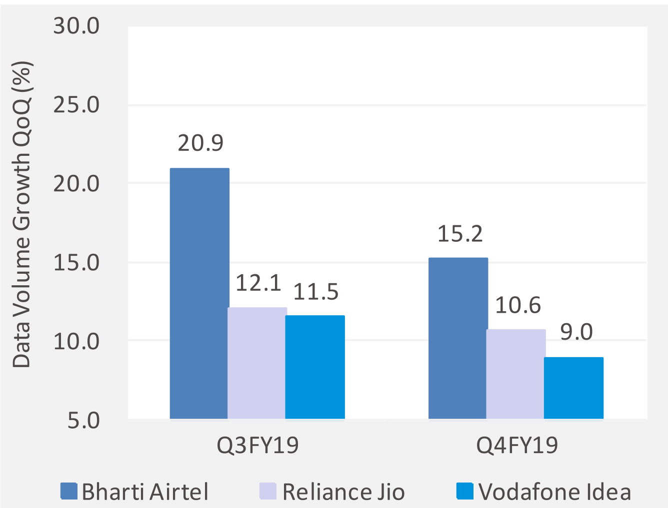


Chart 10: Vodafone Idea trails behind in Data/cust./m

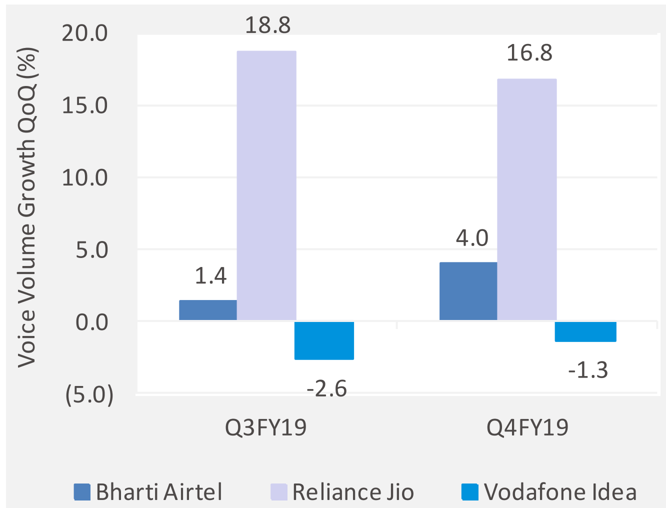
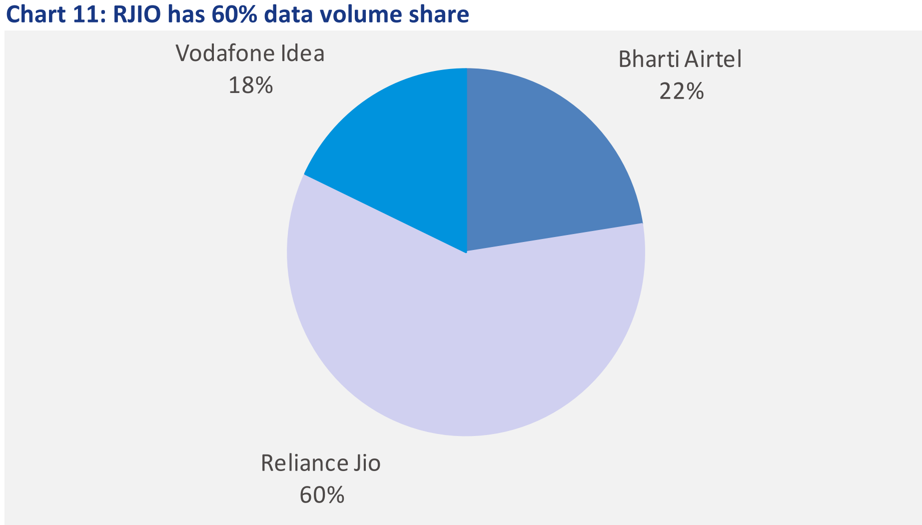


Chart 11: RJIO has 60% data volume share



Source: Company, Edelweiss research

Table 5: RJIO—Statement of profit and loss

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Subscribers (mn)	186.6	306.7	400.9	403.9	406.9	409.9	412.9	415.9
ARPU (INR)	130	131	124	138	160	178	187	196
Total revenues (INR mn)	**201,579**	**388,381**	**526,448**	**667,194**	**775,906**	**871,293**	**921,917**	**975,215**
YoY growth (%)		*92.7*	*35.5*	*26.7*	*16.3*	*12.3*	*5.8*	*5.8*
Operating Costs								
Network opex	49,209	113,379	171,379	216,923	251,181	279,540	292,139	305,128
% of revenue	*24.4*	*29.2*	*32.6*	*32.5*	*32.4*	*32.1*	*31.7*	*31.3*
License and WPC charges	17,674	41,592	57,039	72,114	83,850	94,157	99,628	105,388
% of revenue	*8.8*	*10.7*	*10.8*	*10.8*	*10.8*	*10.8*	*10.8*	*10.8*
Termination Cost	42,874	42,070	35,987	23,707	17,070	19,168	20,282	21,455
% of revenue	*21.3*	*10.8*	*6.8*	*3.6*	*2.2*	*2.2*	*2.2*	*2.2*
Employee costs	9,634	16,577	18,840	24,085	28,027	31,141	31,220	31,074
% of revenue	*4.8*	*4.3*	*3.6*	*3.6*	*3.6*	*3.6*	*3.4*	*3.2*
Subscribers acquisition and Servicing Expenses	7,969	11,500	14,274	20,016	23,277	26,139	27,658	29,256
% of revenue	*4.0*	*3.0*	*2.7*	*3.0*	*3.0*	*3.0*	*3.0*	*3.0*
Admin & Other exp	6,881	12,303	14,224	18,071	21,019	23,492	23,795	23,867
% of revenue	*3.4*	*3.2*	*2.7*	*2.7*	*2.7*	*2.7*	*2.6*	*2.4*
Total Costs	134,240	237,420	311,742	374,916	424,423	473,638	494,722	516,168
EBITDA (INR mn)	**67,338**	**150,960**	**214,706**	**292,279**	**351,483**	**397,656**	**427,195**	**459,048**
EBITDA Margin	*33.4*	*38.9*	*40.8*	*43.8*	*45.3*	*45.6*	*46.3*	*47.1*
Depreciation (INR mn)	**35,765**	**63,984**	**75,548**	**100,721**	**123,351**	**145,431**	**161,256**	**178,380**
Spectrum		6,728	7,944	10,591	12,970	15,292	16,956	18,757
Depreciation on other assets		12,441	14,689	19,583	23,983	28,277	31,353	34,683
Depreciation on incremental capex		50,983	60,198	80,256	98,288	115,881	128,491	142,136
EBIT (INR mn)	**31,573**	**86,976**	**139,158**	**191,558**	**228,132**	**252,225**	**265,939**	**280,667**
Interest (INR mn)	**20,486**	**41,486**	**66,491**	**81,866**	**95,170**	**106,880**	**113,088**	**119,626**
on 4G spectrum	3,530							
on 1800MHz (round 1 auction)	1,604							
on 800 + 1800MHz (round 2 auction)	1,606							
on 800 + 1800MHz + 2300 (round 3 auction)								
Interest on funds raised for capex @ 5%	13,747							
		64	310	200	200	200	200	200
Add : Other income								
PBT (INR mn)	**11,087**	**45,555**	**72,977**	**109,892**	**133,162**	**145,545**	**153,051**	**161,241**
Tax	3,862	15,916	24,938	37,363	43,943	48,030	50,507	53,210
PAT (INR mn)	**7,225**	**29,639**	**48,039**	**72,528**	**89,218**	**97,515**	**102,544**	**108,031**
Capex (INR mn)	501,957	737,500	287,500	237,500	266,386	280,694	138,288	146,282
Cumulative Capex	2,295,339	3,032,839	3,320,339	3,557,839	3,824,225	4,104,919	4,243,206	4,389,489

Source: Edelweiss research

Table 6: NPV analysis of RJIO

DCF ANALYSIS		FY18	FY19	FY20	FY21	FY22	FY23	FY24
EBIT*(1-t)		21,154	58,274	93,236	128,344	152,848	168,990	178,179
Depreciation (INR mn)		-	70,152	82,831	110,430	135,241	159,450	176,800
Gross Cash Flow (INR mn)		21,154	128,426	176,066	238,774	288,090	328,440	354,979
Working Capital (INR mn)		(461,890)	(442,820)	(408,097)	(407,518)	(407,071)	(406,679)	(406,471)
Investment in WC (INR mn)		(48,127)	19,070	34,723	578	447	392	208
Capex (INR mn)		501,957	737,500	287,500	237,500	266,386	280,694	138,288
FCFF (INR mn)		(432,676)	(628,144)	(146,157)	695	21,257	47,354	216,484
FCFF growth (%)								
PV FCF		(432,676)	(628,144)	(146,157)	633	17,635	35,784	149,003
NPV (INR mn)	2,029,743							
FY19E Debt (INR mn)	1,453,820							
NPV of equity (INR mn)	575,923							
Cumulative Investments	3,000,000							
EV/IC	**0.7**							

DCF ANALYSIS		FY25	FY26	FY27	FY28	FY29	FY30	Terminal Value
EBIT*(1-t)		188,047	135,484	96,901	56,626	22,825	2,974	
Depreciation (INR mn)		195,575	311,187	318,278	325,800	333,780	342,246	
Gross Cash Flow (INR mn)		383,622	446,672	415,178	382,426	356,605	345,220	
Working Capital (INR mn)		(406,252)	(406,035)	(405,777)	(405,504)	(405,215)	(404,907)	
Investment in WC (INR mn)		219	218	257	273	290	307	
Capex (INR mn)		146,282	133,666	141,806	150,442	159,604	169,324	
FCFF (INR mn)		237,121	312,788	273,115	231,711	196,712	175,590	3,154,648
FCFF growth (%)								
PV FCF		148,656	178,610	142,050	109,771	84,881	69,012	1,239,865
NPV (INR mn)	2,029,743							
FY19E Debt (INR mn)	1,453,820							
NPV of equity (INR mn)	575,923							
Cumulative Investments	3,000,000							
EV/IC	**0.7**							

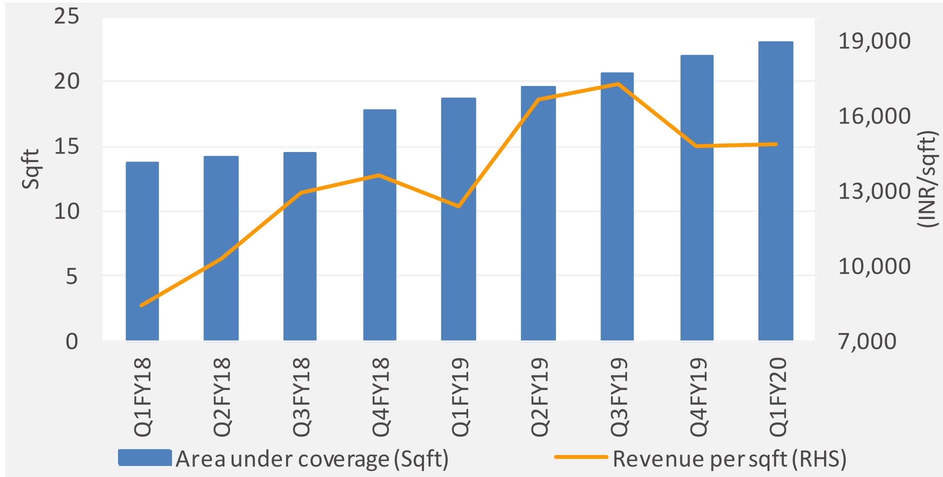
Source: Edelweiss research

Retail: Margin up to 6.0% due to higher share of grocery/connectivity

Reliance Retail’s turnover/EBITDA improved 48%/70% YoY and 5%/7% QoQ. Revenue, ex-petroleum-and-connectivity, rose even higher leading to margin expansion in the current quarter.

Core retail margin came in at 8.9% due to higher footfalls at higher margin grocery, fashion and consumer electronics segments. Share of connectivity, petro-retail and Jio Phone sales (under consumer electronics) continued to remain flat QoQ.

Chart 15: Area under coverage rose 4.5% QoQ while revenue per sqft was flat QoQ



Source: Company, Edelweiss research

Table 7: Retail turnover/EBITDA up 48%/70% YoY

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Revenue (INR mn)	80,790	86,880	103,320	115,710	146,460	187,980	241,830	231,080	324,360	355,770	326,190	342,370
EBITDA (INR mn)	2,640	3,330	3,520	3,980	4,440	6,040	10,860	12,060	13,920	16,800	19,230	20,490
Revenue growth (%)	58.7	43.8	83.0	73.6	81.3	116.4	134.1	99.7	121.5	89.3	34.9	48.2
EBITDA margins (%)	3.3	3.8	3.4	3.4	3.0	3.2	4.5	5.2	4.3	4.7	5.9	6.0

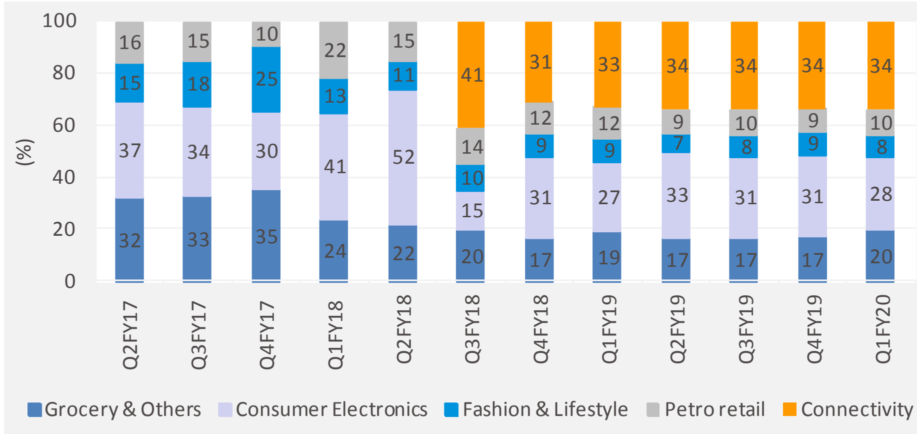
Source: Company, Edelweiss research

Table 8: Penetration of organised retail extremely low

	FY16			FY20		
Categories (%)	**Retail market size (USD bn)**	**Organized retail market size (USD bn)**	**Org. As a % of overall retail**	**Retail market size (USD bn)**	**Organized retail market size (USD bn)**	**Org. As a % of overall retail**
Food & Groceries	413	13	3.1	634	31	4.9
Apparel & Accessories	49	11	22.4	74	24	32.4
Jewellery & watches	47	13	27.7	77	23	29.9
Consumer Electronics	35	9	25.7	63	20	31.7
Home & Living	27	3	10.0	42	5	11.9
Pharmacy & wellness	18	2	10.0	28	3	10.7
Footwear	7	3	42.9	12	5	41.7
Others	20	2	10.0	30	4	13.3
Total	**616**	**56**	**9.0**	**960**	**115**	**12.0**

Source: Avenue Supermarkets prospectus

Chart 16: Share of higher margin businesses continues to increase



Source: Company

Table 9: We conservatively assign a 1.5x blended FY21E EV/Sales for RIL Retail

FY20 (INR bn)	Mcap	Net debt	EV	Sales	EBITDA	EBIT	EBIT margin (%)	EV/Sales (x)	EV/EBITDA (x)
DMART	879.9	-8.5	871	240.7	21.4	19.1	8.0	3.6	40.7
ABFRL	154.2	12.2	166	90.5	9.0	6.9	7.6	1.8	18.6
Arvind	15.1	28.1	43	135.0	13.7	11.1	8.2	0.3	3.2
Future Retail	216.0	4.6	221	231.3	12.0	13.2	5.7	1.0	18.3
Future Lifestyle	89.6	10.6	100	72.6	6.9	5.0	6.9	1.4	14.4
Trent	149.2	0.3	150	30.4	3.7	3.3	11.0	4.9	40.5
Shoppers Stop	40.3	0.0	40	45.2	3.6	2.0	4.4	0.9	11.2
V-Mart	37.2	-1.4	36	16.6	1.8	2.0	11.9	2.2	20.0
Titan	970.2	-15.3	955	235.8	25.9	25.8	10.9	4.0	36.8
Average							**7.8**	**2.1**	**23.0**

Source: Company, Bloomberg

Retail: Omni-channel strategy

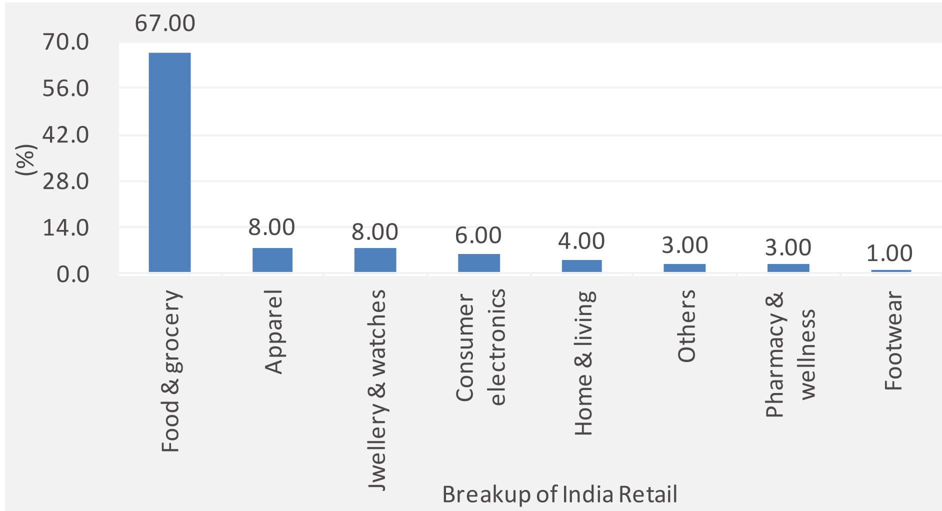
Online retailers are shifting offline to resort to the digital medium to target consumers. In this current era, omni-channel strategy is the way ahead with online and offline presence.

There is robust growth in an extensive omni-channel strategy with 10,644 Reliance Retail stores having 5,000 Jio stores which are used to generate sales and deliver products to consumers. Going ahead, omni-channel strategy with blended online and offline channels will provide seamless experience to consumers.

Shoppers Stop has invested INR400mn in its omni-channel strategy and expects ~10-15% revenue via online sales. Pantaloon is a major player which is looking for the online presence as a big move in the industry.

The apparels market in India was pegged at INR3,201bn in FY16 and is estimated to clock 10.9% CAGR over FY16-20. Organised apparel segment is expected to post 21.9% CAGR over FY16-20 aided by shift of demand from unorganised to organised players. The F&G market in India was estimated at INR26,845bn in FY16 and expected to post 11.3% CAGR over FY16-20 with organised segment to post 24.3% CAGR over FY16-20. The domestic jewellery & watches industry was pegged at INR3,042bn in FY16 and is estimated to register 13.4% CAGR over FY16-20 with organised jewellery to clock 16.1% CAGR over FY16-20. Going ahead, Omni channel strategy with blended online and offline channels will provide seamless experience to the consumers.

Chart 17: Breakup of India retail market



Source: Company, Edelweiss research

Refining: EBIT beat led by lower opex; higher throughput

RIL posted refining EBIT of INR45bn (up 8% QoQ, down 15% YoY). GRM at USD8.1/bbl came slightly lower than our estimate (USD 8.3/bbl). Gasoline cracks weakened due to capacity ramp-up, mainly in Asia. Gasoil cracks dropped marginally QoQ but will get optimized in view of increase in demand. Naphtha cracks fell QoQ in lieu of higher planned/ unplanned shutdowns. Jet/ Kerosene cracks weakened QoQ due to higher Chinese production and exports.

Key highlights

- GRM came in at USD8.1/bbl (estimate: USD8.3/bbl) compared with US8.2/bbl in Q4FY19 and USD10.5/bbl in Q1FY19.
- Throughput of 17.5MMT (16MMT in Q4FY19 and 16.6MMT in Q1FY19) implies utilisation of 112.9%.
- GRM premium over Singapore benchmark stood at USD4.6/bbl versus USD5.0/bbl in Q3FY19.
- The AL-AH spreads continued to remain flat in Q1FY20, which led to a widening of spread versus Singapore GRM.
- Export volumes of refined products improved to 10.1MMT from 9.1MMT in Q4FY19. Domestic demand for light and middle distillates remains robust.
- Units of petcoke gasification at DTA have stabilised, although commissioning is expected only by 2nd quarter of 2019.
- In anticipation of the International Maritime Organisation (IMO) regulations in 2020, forward cracks of diesel/FO stand at USD20/-USD10/bbl versus current spread of USD15/-USD6/bbl. We expect the IMO regulation to provide a leg-up to refining margins in FY20/FY21.
- Started production of niche diesel streams to improve economics with increase in cracks

Chart 18: RIL's premium to Singapore GRMs at USD4.6 /bbl (USD5/bbl in Q4FY19)

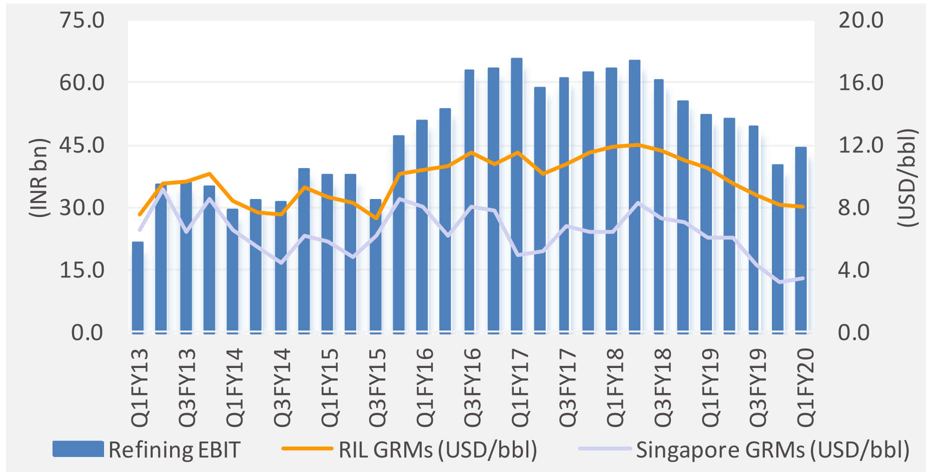


Chart 19: Refinery throughput surged to 17.5MMT and capacity utilisation to 112.9%

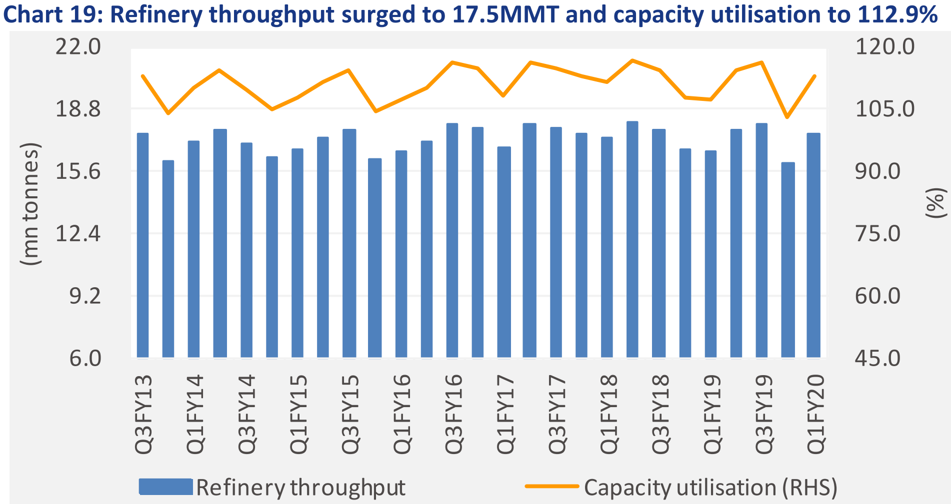


Chart 20: Naphtha cracks & FO cracks improved QoQ

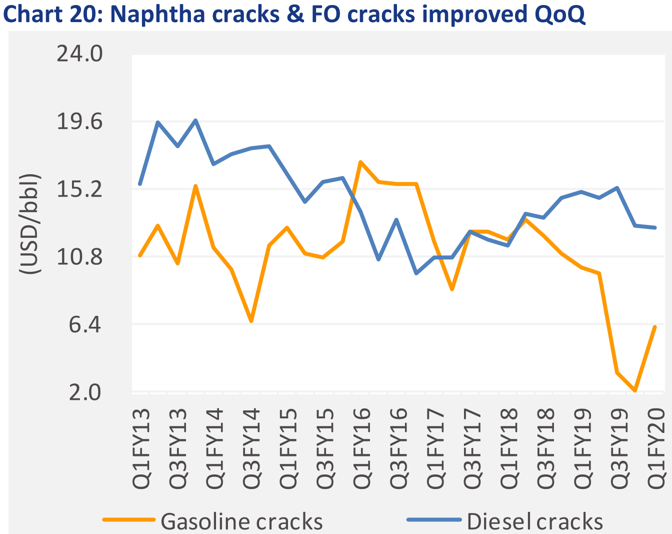
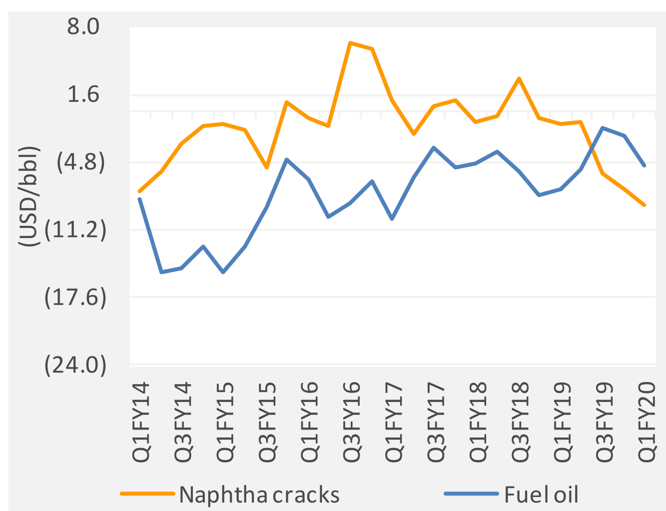


Chart 21: Gasoline cracks improved; gasoil cracks remain flat



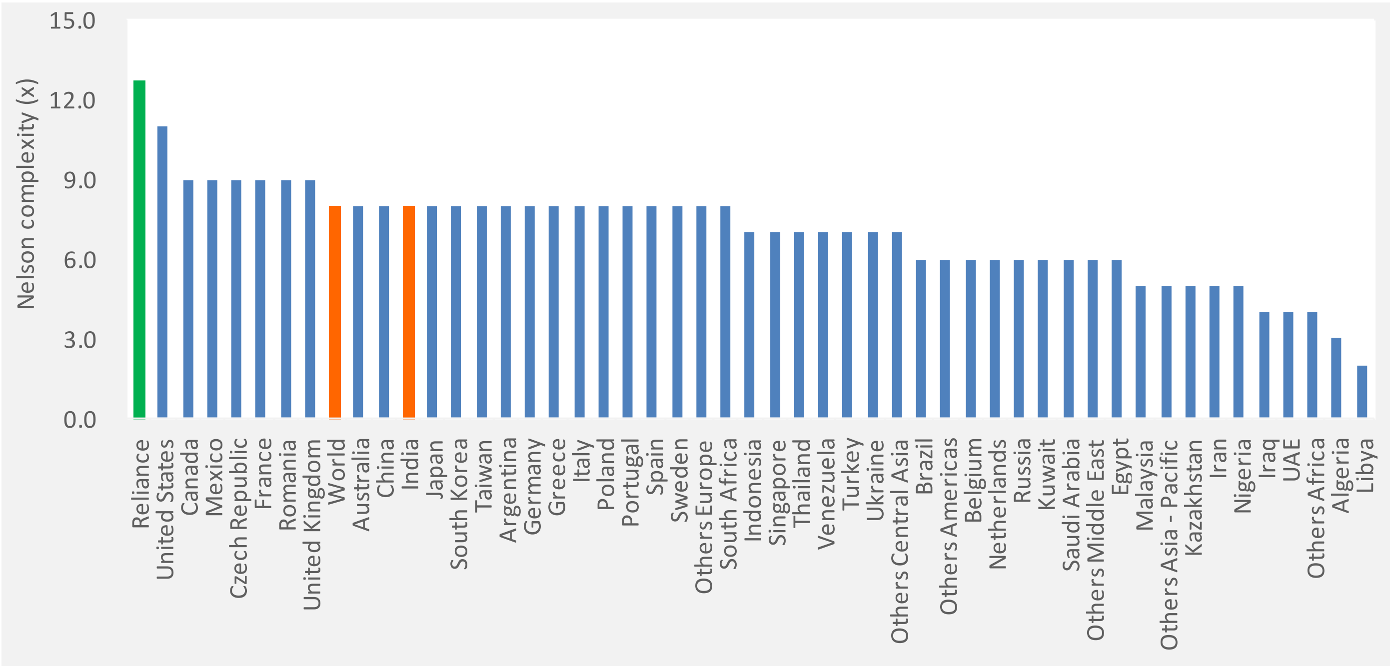
Source: Company, Edelweiss research

Reliance refining: Amongst most competitive globally

RIL's Jamnagar refinery complex is the world's largest refining hub and amongst the most complex in Asia, with a Nelson Complexity Index (NCI) of 12.7.

- **Jamnagar manufacturing division:** 33MMTPA capacity with NCI of 11.3, fully integrated with downstream petrochemical units.
- **SEZ refinery**: 37MMTPA with NCI of 14, it is the largest and most complex refinery globally. RIL's SEZ refinery is able to produce Euro VI grade of gasoline and diesel.

Chart 22: RIL's Jamnagar refining unit amongst most complex in world



Source: ENI, Edelweiss research

Competitive advantage: Superior GRMs, higher operational efficiencies

RIL's Jamnagar refining complex is far superior to peers in terms of **scale, design, flexibility, level of automation and degree of integration**. It is also differentiated from other global refineries in terms of its ability to take advantage of the light/heavy crude price differential and alter the product slate/adapt to changing market dynamics. The company's refineries have operated at near 100% utilisation with minimal downtime, consistently outperforming average utilisation rates of refineries in the Asia-Pacific region, the EU and North America.

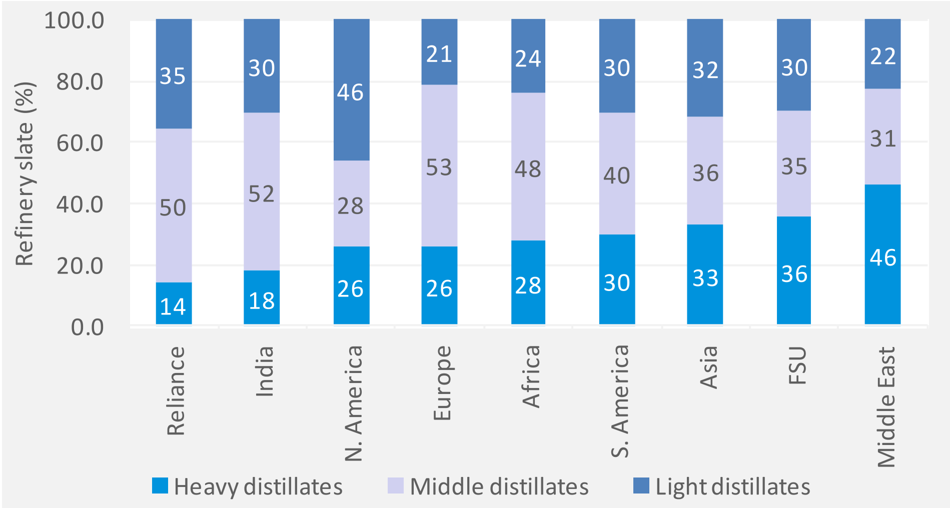
RIL's competitive advantages over peers are as below:

Low fixed costs: The refining complex was built in record time at globally competitive capital costs, incidentally at costs much lower than comparable refineries around the world.
Superior GRMs: RIL has consistently achieved superior GRMs versus Singapore complex margins, owing to higher complexity and efficient crude processing. RIL's refinery configuration is also characterised by superior product slate versus other refineries. The 3 important features in this regard include:

- High proportion of high-value products such as propylene and LPG (adding to over 10% of crude processed as compared to 2-3% for most other refineries).
- High proportion of middle and light distillates (diesel, naphtha, gasoline), which enjoy higher and stable crack spreads.
- Nil production of low-value "black oils" - fuel oil (compared to 12-20% on crude processed by most other refineries) under normal circumstances.

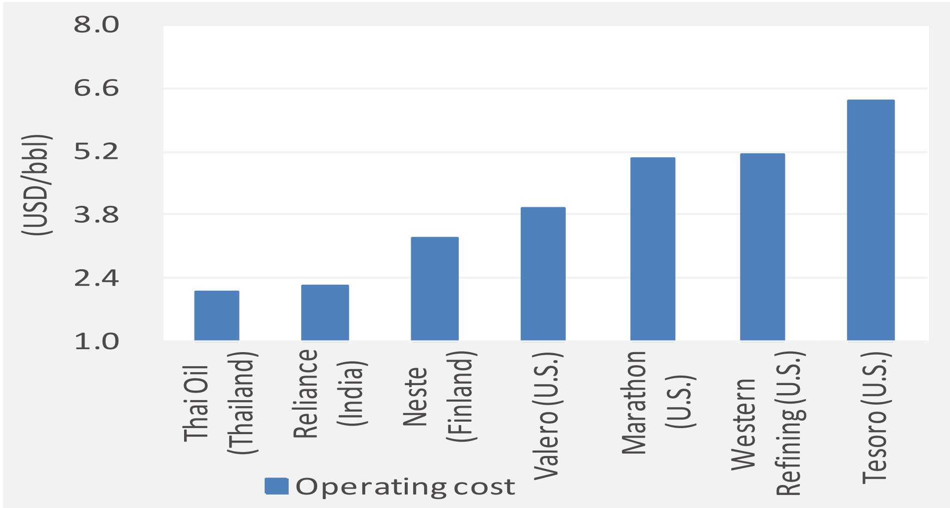
Energy efficient refiner—Operating costs among lowest in the world: RIL's refineries are in close proximity to the Gulf of Kutch and the Middle-East crude oil sources, which supported by world-class logistics and port facilities, provide the company with freight advantages. Most of the crude imported is transported on large crude carriers (VLCC).

Chart 23: RIL—Superior product slate, higher exposure to light and middle distillates



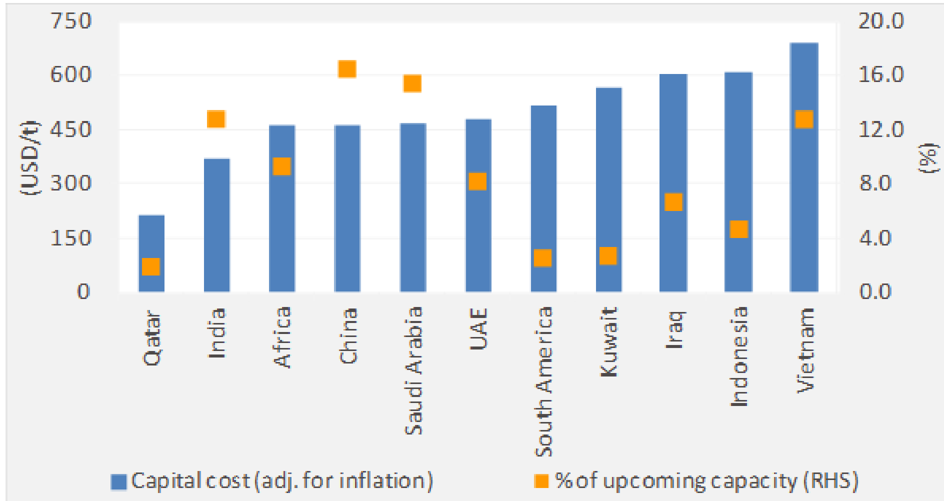
Source: MoPNG, Edelweiss research

Chart 24: RIL—One of the lowest cost producers globally



Source: IEA, Companies, Edelweiss research

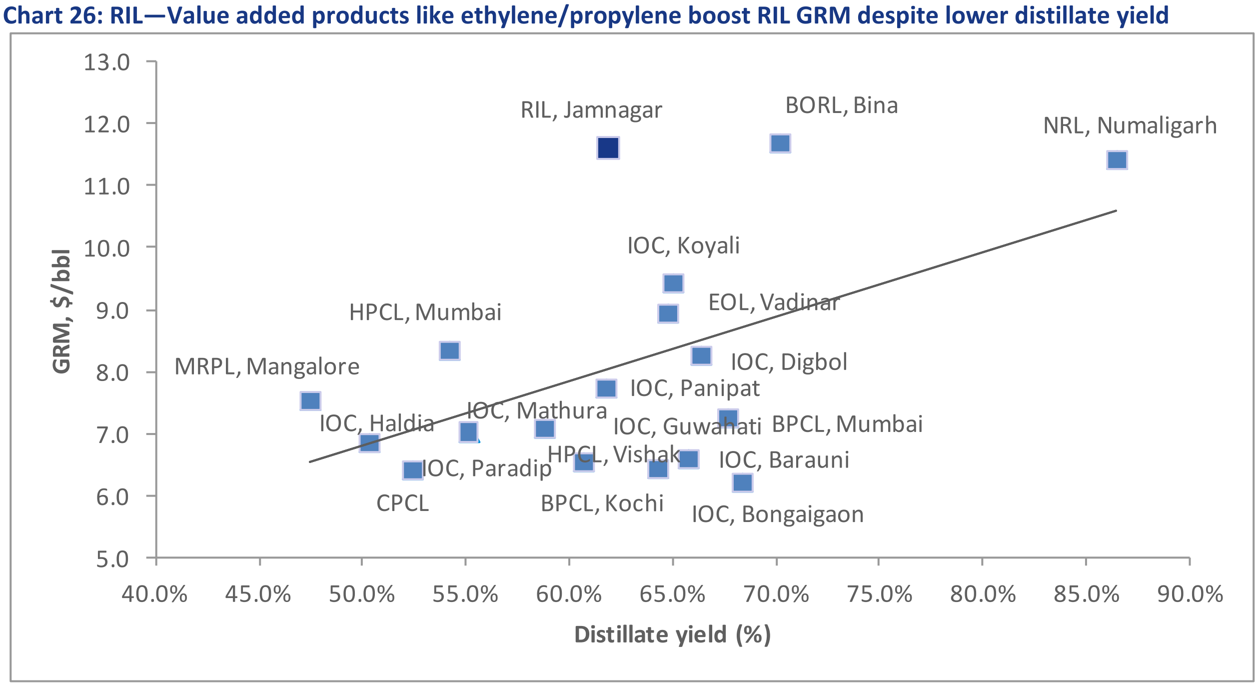
Chart 25: Capital costs are one of the lowest in India



Source: IEA, Companies, Edelweiss research

RIL's GRM scores disproportionately higher to adjusted distillate yield (gasoline+middle distillate-fuel losses) due to the highest share of value added products in its product slate in the country. While 25% of product slate is classified as others as per MoPNG, we estimate that a significant share of this would be constituted by ethylene/propylene used in captive petchem units. GRM's on these products can be as high as USD 40-50/bbl.

Chart 26: RIL—Value added products like ethylene/propylene boost RIL GRM despite lower distillate yield



Source: MoPNG, Edelweiss research

Complex refiners to benefit from IMO regulations: Dr. Fesharaki

We had the privilege of hosting Dr. Fereidun Fesharaki, founder of Facts Global Energy (FGE) and global expert in oil economics. He was of the opinion that complex refiners like RIL are likely to benefit from upcoming changes in refining.

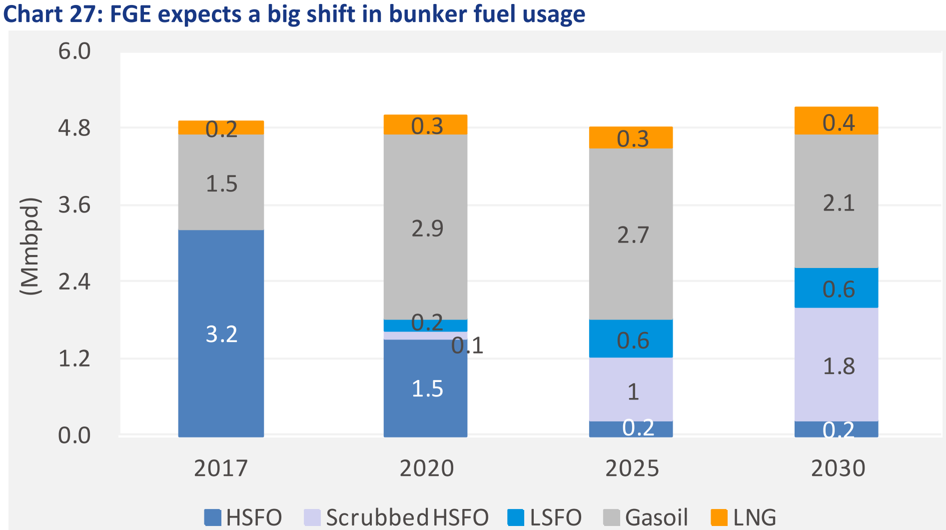
IMO regulations likely to benefit complex refiners: IMO regulations in 2020 stipulate a mandatory shift to cleaner fuels such as diesel. The impending spike in diesel demand will prop up diesel cracks by USD10–15/bbl and consequently refining margins. Dr. Fesharaki expects complex refiners like RIL to be the key beneficiaries.

RIL to be one of the biggest beneficiaries: Given high complexity of Indian refiners in general and RIL in particular, companies with complex capacities will have greatest flexibility to adapt to and leverage the upcoming dynamics in oil and refining.

FGE expects strong compliance to IMO's sulphur regulations, which come into force w.e.f. 2020. The regulations are likely to result in a big shift in bunker fuel use, thereby cutting 3.0mbpd of HSFO. Refiners will be incentivised to shift towards middle distillates as shippers globally will look to alternatives like diesel to comply with the fuel norms.

IMO is also likely to result in wider differentials between heavy and light grades as heavy grades suffer from potential displacement of HSFO demand. The wider differential will further benefit complex refiners like RIL, which have the capability to process these grades into high-value-added products.

Chart 27: FGE expects a big shift in bunker fuel usage



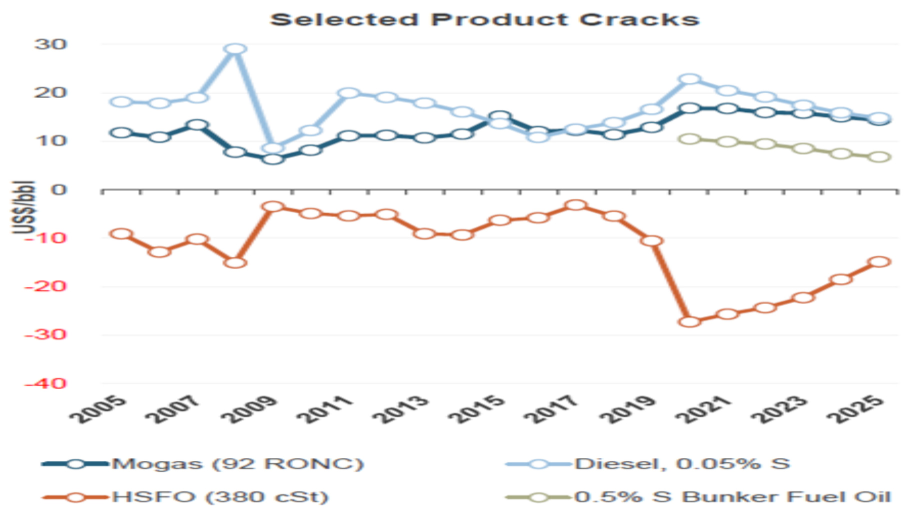
Source: Edelweiss research

Table 10: IMO impact—HSFO demand displacement to widen Brent/Dubai differential

Product Slate	US$/bbl	2017	2018	2019E	2020E
19.5%	Gasoline	12.0	6.0	10.0	14.0
37.4%	Diesel	13.2	15.0	18.0	23.0
15.6%	HSFO	(5.4)	(6.5)	(12.0)	(27.0)
13.5%	Jet/Kero	13.3	14.0	15.0	16.0
4.1%	LPG	(25.2)	(26.0)	(22.0)	(19.0)
6.5%	Naphtha	0.2	(5.0)	0.4	0.5
	Singapore GRM	**7.2**	**5.1**	**8.0**	**8.5**

Source: FGE

Fig. 5: IMO to boost Singapore refining benchmark



Source: FGE

Fig. 6: Swap spreads have widened to over USD330/tonne over the past year

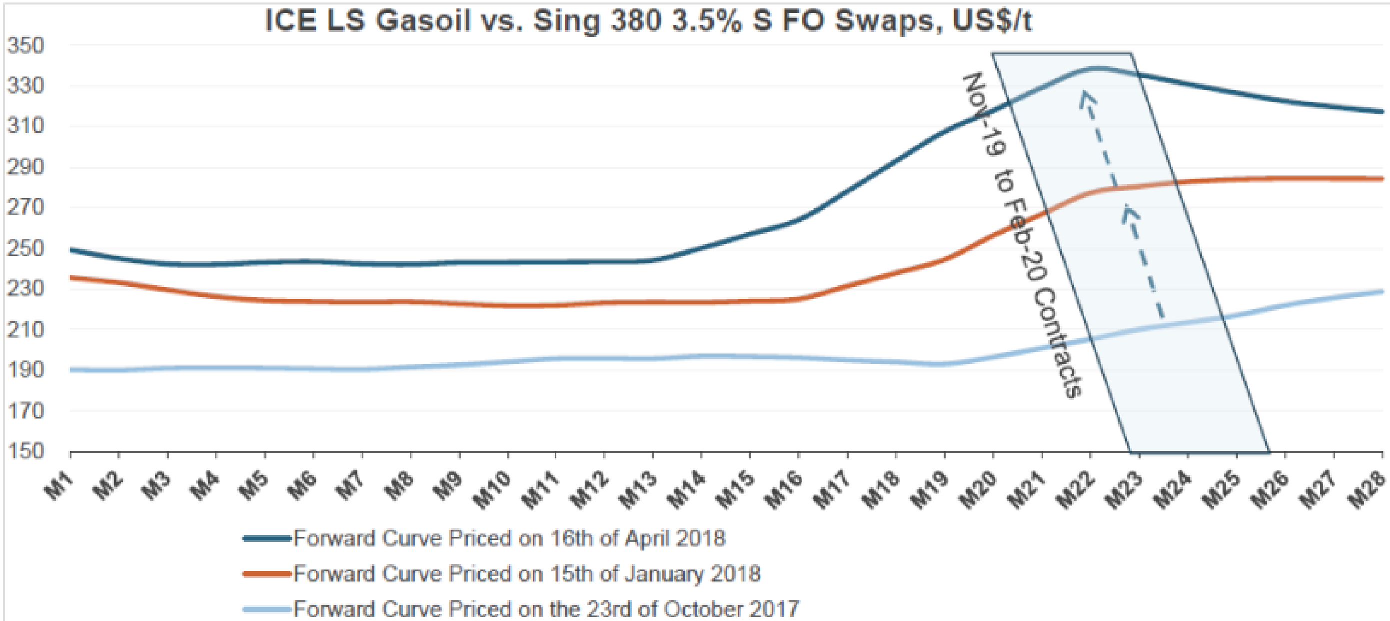
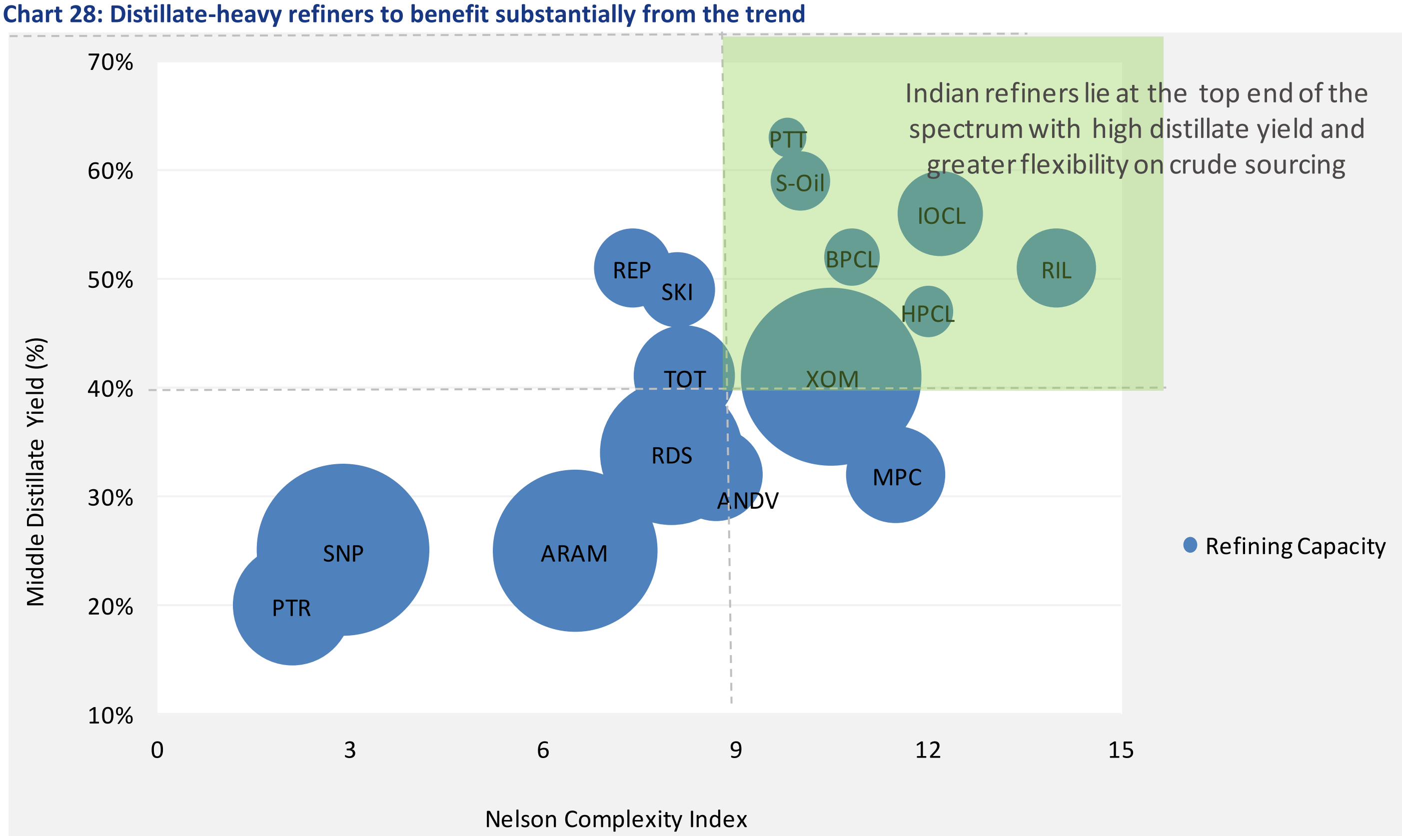


Chart 28: Distillate-heavy refiners to benefit substantially from the trend



Source: Company, Edelweiss research

DTA coker revamp

There is a major coker revamp which involves replacement of existing coker drums, erection of two new coke drums and addition of new parallel fractionators. It will increase capacity by 30% and aid incremental heavy crude processing, which will enhance sustainable competitive advantage.

Major commissioning will be done by 1H 2019 and enhanced coker capacity will be available by Q4FY20. Due to IMO, there will be a widening of crude blend window to process higher sulphur blends. It will be advantageous to source feedstocks including high sulphur fuel oil.

Source: Company

Petrochemicals: Steady performance driven by new projects

The segment clocked an EBIT of INR75bn (down 4% YoY, down 6% QoQ). The subdued performance was driven by lower product spreads across the integrated polymer chain.

Lower US Ethane price (down 29% QoQ) supported Ethane cracker competitiveness. Planned shutdowns for operational effectiveness impacted volume performance during the quarter.

RIL's intermediate production was down 9.7% YoY due to planned maintenance at PX and PTA plants.

Polyester production stablised, operating at nearly full utlisation levels. Fibre intermediates production in Q1FY20 decreased 9.7% YoY to 2.3MMT due to ramp up at PX plant. Margin shift from upstream PX to downstream PTA and polyester helped sustain integrated chain margin. Polyester market remained resilient amid healthy operation with improves in demand and low inventory. New PP capacity addition in India (700 KT) is expected by 2Q which will make India demand self sufficient.

With the ROGC and PX plants stabilising, petrochemical output achieved a volume of 8.7MT during the quarter.

Chart 29: Subdued petchem performance led by weak polyester cracks

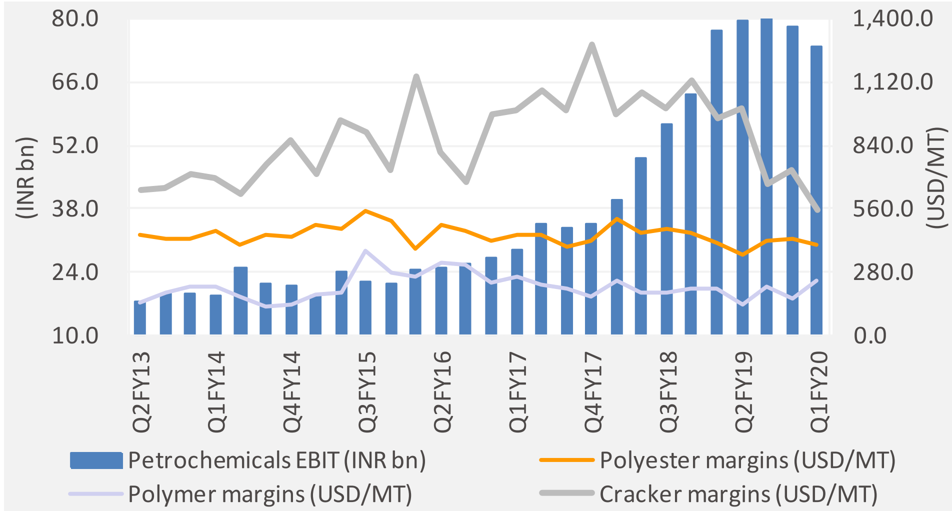


Chart 10: Petchem production down 5.4% YoY, following operational shutdown

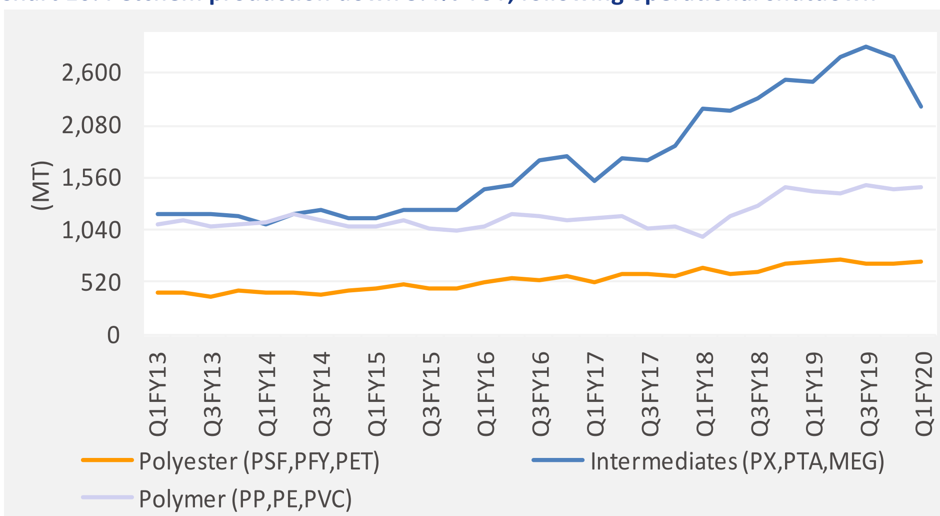
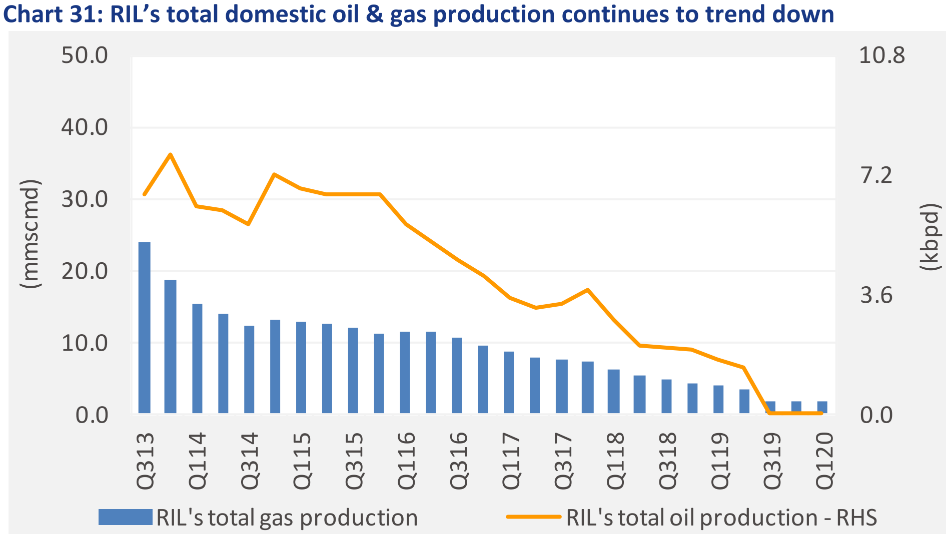
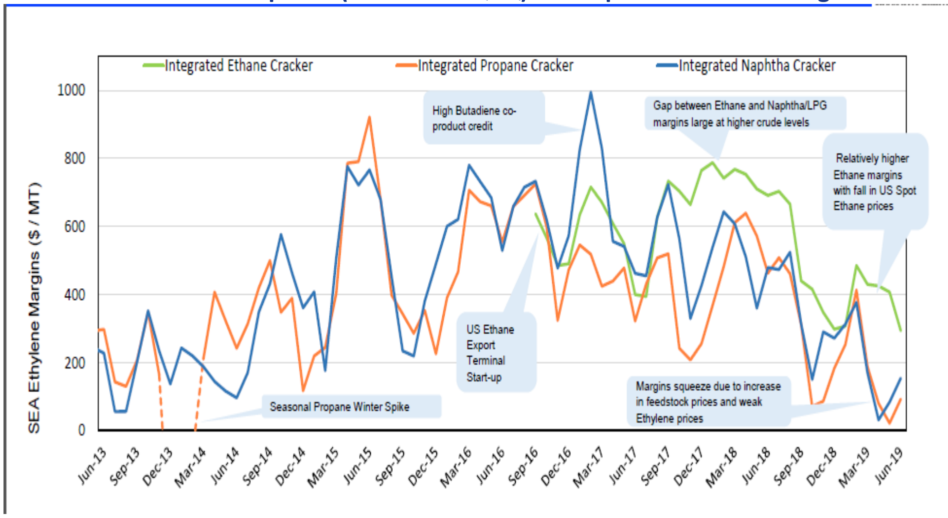


Chart 31: RIL's total domestic oil & gas production continues to trend down



Source: Company, Edelweiss research

Chart 32: Lower ethane prices (down 29% QoQ) have spurred cracker margins



Source: Company, Edelweiss research

Table 11: Consolidated segmental performance

Segmental revenues (INR mn)	Q1FY20	Q1FY19	% change YoY	Q4FY19	% change QoQ
Petrochemical	376,110	402,870	*(6.6)*	424,140	*(11.3)*
Refining	1,017,210	956,460	*6.4*	878,440	*15.8*
Oil and Gas	9,230	14,320	*(35.5)*	10,690	*(13.7)*
Organised retail	381,960	258,900	*47.5*	366,630	*4.2*
Digital services	149,100	96,530	*54.5*	136,090	*9.6*
Others	107,870	29,680	*263.4*	79,390	*35.9*
Gross turnover	**2,041,480**	**1,758,760**	***16.1***	**1,895,380**	***7.7***
Less: Inter segment transfers	311,920	341,770	*(8.7)*	354,280	*(12.0)*
Turnover	**1,729,560**	**1,416,990**	***22.1***	**1,541,100**	***12.2***
Less: GST recovered	116,070	86,300	*34.5*	124,760	*(100.0)*
Net turnover	**1,613,490**	**1,330,690**	*21.3*	**1,416,340**	*13.9*
Segmental EBIT (INR mn)		0		0	
Petrochemical	75,080	78,570	*(4.4)*	79,750	*(5.9)*
Refining	45,080	53,150	*(15.2)*	41,760	*8.0*
Oil and Gas	(2,490)	(4,470)	*NM*	(2,670)	*NM*
Organised retail	17,770	10,690	*66.2*	17,210	*3.3*
Digital services	30,800	17,150	*NM*	26,650	*NM*
Others	4,830	3,960	*22.0*	1,440	*235.4*
Total EBIT	**171,070**	**159,050**	*7.6*	**164,140**	*4.2*
Segmental margins (EBIT margins % of sales)		0	***YoY bps change***	0	***QoQ bps change***
Petrochemical	*20.0*	*19.5*	*0.5*	*18.8*	*1.2*
Refining	*4.4*	*5.6*	*(1.1)*	*4.8*	*(0.3)*
Oil and Gas	*(27.0)*	*(31.2)*	*4.2*	*(25.0)*	*(2.0)*
Organised retail	*4.7*	*4.1*	*0.5*	*4.7*	*(0.0)*
Digital services	*20.7*	*17.8*	*2.9*	*19.6*	*1.1*
Others	*4.5*	*13.3*	*(8.9)*	*1.8*	*2.7*

Source: Company, Edelweiss research

Table 12: SOTP valuation: TP revised to INR1,652/share

	Base value	Base value	Base value (INR/share)	%	Comments
Refining (@ EV/EBITDA = 7.5x)	34.1	2,385	405	23%	Global Refining peers trade at 7.2x. Assumed GRM of USD12.0/bbl, USD14.8/bbl in FY20/21.
Petchem (@ EV/EBITDA = 7.8x)	42.8	2,999	509	28%	Global petchem peers trade at 7.2x. Assumed EBITDA of USD214/mt, USD231 in FY20/21.
(a) KG-D6 (DCF)	2.0	139	24	1%	Includes D1/D3, MA, R-Series and Satellite fields, NPV from marketing margins
(b) CBM (DCF)	0.6	43	7	0%	
India Upstream	2.6	182	31	2%	
Shale Gas	0.5	34	6	0%	Based on book value of assets
Retail (@ EV/Sales = 1.5x)	41.7	2,919	495	28%	Implied EV/sales at 1.5x FY21E
Telecom	29.0	2,030	344	19%	DCF based EV of INR 2 trn
Value of operating assets	**151**	**10,548**	**1,789**	100%	
Cons. Cash & Cash Eq.	15.2	1,064	181	10%	
Capital work-in-progress (CWIP)	11.7	820	139	8%	Based on a 60% discount to book value of CW
Non current Investments (ex fibre)	18.7	1,307	222	12%	
Investment in fiber co		382	65	4%	Preference shares adjusted by 50% discount
Gross Debt	47.1	3,300	560	30%	
Net debt	**13.3**	**(274)**	**(46)**	-3%	
SOTP	**137.4**	**10,822**	**1,835**	**100%**	
Less: Conglomerate discount @ 10%			**184**		
SOTP			**1,652**		
CMP			**1,350**		
Return on CMP (%)			**22%**		

Source: Edelweiss research

Table 13: Breakup of retail valuation

FY21, INR bn	Revenue	Multiple	Value
Retail	1,081	2.5	2,703
Jio	667	0.1	67
Petro	166	0.9	149
Combined Value	**1,914**	**1.5**	**2,919**
Shares			5,896
Value/share			**495**

Source: Edelweiss research

Financial snapshot **(INR mn)**

Year to March	Q1FY20	Q1FY19	*% change*	Q4FY19	*% change*	FY19	FY20E	FY21E
Net revenues	1,613,490	1,330,690	*21.3*	1,416,340	*13.9*	5,671,350	4,477,319	5,589,883
Raw material costs	1,099,560	900,010	*22.2*	926,480	*18.7*	3,944,870	4,142,605	4,939,969
Gross profit	513,930	430,680	*19.3*	489,860	*4.9*	1,726,480	334,714	649,913
Employee expenses	33,350	29,510	*13.0*	33,450	*(0.3)*	124,880	314,040	392,377
Other expenses	223,700	151,430	*47.7*	218,340	*2.5*	762,420	(948,833)	(902,462)
EBITDA	213,150	206,610	*3.2*	208,320	*2.3*	839,180	969,507	1,159,998
Depreciation	50,110	51,730	*(3.1)*	52,950	*(5.4)*	209,340	216,336	265,594
EBIT	163,040	154,880	*5.3*	155,370	*4.9*	629,840	753,171	894,404
Interest	51,090	35,500	*43.9*	48,940	*4.4*	164,950	194,436	207,575
Other income	31,460	17,780	*76.9*	31,470	*0.0*	86,350	113,086	119,690
Add: Prior period items								
Add: Exceptional items								
Profit before tax	143,410	137,160	*4.6*	137,900	*4.0*	551,240	671,821	806,519
Provision for taxes	42,250	42,410	*(0.4)*	34,310	*23.1*	153,900	192,129	228,973
Minority interest								
Associate profit share								
Reported net profit	101,040	94,590	*6.8*	103,620	*(2.5)*	395,880	476,071	572,019
Adjusted Profit	101,040	94,590	*6.8*	103,620	*(2.5)*	395,880	476,071	572,019
Diluted shares (mn)	6,338	6,338		6,338		5,926	5,926	5,926
Adjusted Diluted EPS	15.9	14.9	*6.8*	16.3	*(2.5)*	66.8	80.3	96.5
Diluted P/E (x)	-	-		-		24.7	20.6	17.1
EV/EBITDA (x)	-	-		-		15.5	12.5	10.4
ROAE (%)	-	-		-		11.5	10.9	10.9
As % of net revenues								
Gross profit	31.9	32.4		34.6		30.4	7.5	11.6
EBITDA	13.2	15.5		14.7		14.8	21.7	20.8
Reported net profit	6.3	7.1		7.3		7.0	10.6	10.2
Tax rate	29.5	30.9		24.9		27.9	28.6	28.4

Company Description

RIL is the largest private player in the refining, petrochemical and E&P sectors in India. While RIL's refining complex in Jamnagar is the largest in the world and among the most complex, it is also among the largest integrated petrochemical producers globally. Apart from E&P in India, RIL has made significant investments in US shale gas. In terms of EBIT, Refining contribute 33%, Petrochemicals 47%. and 19.3% in Oil and Gas. EBIT contribution from retail is 6.5% while telecom operations has been commercially launched in September 2016, which we believe will have 3 years of start-up losses at EBITDA level. RIL has a weight of 9.1% in BSE Sensex and 7.5% in S&P CNX Nifty.

Investment Theme

RIL's strength lies in its ability to build businesses of global scale and execute complex, time-critical, and capital-intensive projects which will prove advantageous as it embarks on large investments in all core segments.

We expect non-regulated segments (refining, chemicals and shale) to contribute ~90% of incremental EBITDA over the next few years.

We are positive on both refining and chemicals. We believe refining margins in Asia will rise due to a "paradigm shift in regional refining dynamics" from West to East, which will favor a complex refiner like Reliance. Global utilization rates have bottomed out in chemicals.

RIL is currently in a capex phase, investing in world-scale projects like petcoke gasification, off-gas crackers and telecoms, which are expected to drive future growth.

Key Risks

Slow down in global demand or larger than expected capacity additions could impact RIL's refining and chemical margins.

Delay in the commissioning of key upcoming core projects: petcoke gasification and off-gas cracker, could significantly impact our earnings model.

Delays in government approvals for India E&P or weak domestic gas prices could hamper progress in upstream.

Weak US natural gas prices could lower the profitability of shale gas assets, though it could be offset by the liquids-rich acreages which are currently highly profitable.

Rupee appreciation may impact negatively as RIL is positively leveraged to the depreciating currency.

About two-fifths of RIL's capex is in unrelated diversifications, especially telecoms & related. We believe that the telecom business shall have a long ~5 year gestation, before it becomes profitable.

Financial Statements

Key assumption

Year to March	FY18	FY19E	FY20E	FY21E
MACRO ASSUMPTIONS				
GDP(Y-o-Y %)	6.5	7.1	7.6	7.6
Inflation (Avg)	3.8	4.5	5.0	5.0
Repo rate (exit rate)	6.0	6.0	6.5	6.8
USD/INR (Avg)	64.5	70.0	72.0	72.0
SECTOR ASSUMPTIONS				
OIL AND GAS PRICE				
Brent crude prices ($/bbl)	57.6	69.0	65.0	75.0
India natural gas price (USD/mmbtu)	2.7	3.2	3.6	4.0
COMPANY ASSUMPTIONS				
Refining				
GRM (USD/bbl)	11.6	9.8	11.5	13.3
Base GRM (USD/bbl)	11.6	9.8	10.8	11.3
Cumulative inc. from Petcoke Gasification	0.0	0.0	0.7	2.0
Refining throughput (mmt)	69.8	69.8	69.8	69.8
Petrochemical				
Chemicals production (mmt)	23.9	25.6	26.3	27.1
Chemicals EBITDA (USD/mt)	168	188	207	225
Petrochemical Production (mmt)				
Total Cracker production	0.2	0.2	0.2	0.2
Production from Off-gas cracker	1.1	1.1	1.1	1.1
Propylene/Benzene prod. from Refinery	0.4	0.4	0.4	0.4
Polymer	0.7	0.7	0.7	0.7
Polyester intermediates	1.2	1.5	1.5	1.5
Polyester	1.0	1.1	1.1	1.1
Petchem Margins (USD/mt)				
Naphtha cracking margins	1,046	968	915	963
Additional margins from off-gas cracker	0	60	50	60
Polypropylene margins	(10)	30	31	31
Paraxylene margins	0	0	0	0
PTA margins	304	310	317	323
MEG margins	298	304	310	316

Income statement (INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	3,916,770	5,671,350	4,477,319	5,589,883
Materials costs	2,674,660	3,944,870	4,142,605	4,939,969
Gross profit	1,242,110	1,726,480	334,714	649,913
Operating expenses	600,350	887,300	(634,793)	(510,085)
EBITDA	641,760	839,180	969,507	1,159,998
Depreciation	167,060	209,340	216,336	265,594
EBIT	474,700	629,840	753,171	894,404
Less: Interest Expense	80,520	164,950	194,436	207,575
Add: Other income	99,490.00	86,350.00	113,085.83	119,689.58
Profit Before Tax	493,670	551,240	671,821	806,519
Less: Provision for Tax	133,460	153,900	192,129	228,973
Less: Minority Interest	50	2,490	3,621	5,527
Associate profit share	590	1,030	-	-
Reported Profit	360,750	395,880	476,071	572,019
Adjusted Profit	360,750	395,880	476,071	572,019
Shares o /s (mn)	5,926	5,926	5,926	5,926
Adjusted Basic EPS	60.9	66.8	80.3	96.5
Diluted shares o/s (mn)	5,926	5,926	5,926	5,926
Adjusted Diluted EPS	60.9	66.8	80.3	96.5
Adjusted Cash EPS	94.5	108.4	119.4	144.8
Dividend per share (DPS)	6.0	6.5	7.9	8.7
Dividend Payout Ratio(%)	11.5	11.4	11.5	10.5

Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Materials costs	68.3	69.6	92.5	88.4
Staff costs	2.4	2.2	7.0	7.0
S G & A expenses	12.9	13.4	(21.2)	(16.1)
Operating expenses	15.3	15.6	(14.2)	(9.1)
Depreciation	4.3	3.7	4.8	4.8
Interest Expense	2.1	2.9	4.3	3.7
EBITDA margins	16.4	14.8	21.7	20.8
Net Profit margins	9.2	7.0	10.7	10.3

Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	28.3	44.8	(21.1)	24.8
EBITDA	38.9	30.8	15.5	19.6
PBT	23.0	11.7	21.9	20.0
Adjusted Profit	20.6	9.7	20.3	20.2
EPS	20.6	9.7	20.3	20.2

Balance sheet				(INR mn)
As on 31st March	FY18	FY19	FY20E	FY21E
Share capital	59,220	59,260	59,260	59,260
Reserves & Surplus	2,875,840	3,811,860	4,673,129	5,624,508
Shareholders' funds	2,935,060	3,871,120	4,732,389	5,683,768
Minority Interest	35,390	82,800	86,421	91,948
Long term borrowings	1,441,750	2,363,650	2,434,107	2,378,559
Short term borrowings	745,880	1,514,870	866,230	871,230
Total Borrowings	2,187,630	3,878,520	3,300,337	3,249,789
Long Term Liabilities	316,580	316,580	316,580	316,580
Def. Tax Liability (net)	245,430	499,230	1,550,666	1,571,093
Sources of funds	**5,720,090**	**8,648,250**	**9,986,393**	**10,913,178**
Gross Block	4,396,630	4,393,178	4,846,040	5,026,252
Net Block	3,160,310	3,021,150	3,184,044	3,098,662
Intangible Assets	878,540	962,590	919,311	961,356
CWIP (incl. intangible)	1,870,220	1,794,630	1,744,630	1,844,630
Total Fixed Assets	5,909,070	5,778,370	5,847,985	5,904,648
Non current investments	252,590	1,645,490	1,645,490	1,645,490
Cash and Equivalents	618,580	784,510	1,064,473	2,065,354
Inventories	608,370	675,610	877,464	1,016,837
Sundry Debtors	175,550	300,890	201,752	236,244
Loans & Advances	49,950	73,580	27,732	95,677
Other Current Assets	498,620	765,610	838,157	855,356
Current Assets (ex cash)	1,332,490	1,635,730	1,765,145	2,024,154
Trade payable	1,068,610	1,083,090	1,091,332	1,394,816
Other Current Liab	1,324,030	112,760	(754,632)	(668,348)
Total Current Liab	2,392,640	1,195,850	336,700	726,469
Net Curr Assets-ex cash	(1,060,150)	439,880	1,428,444	1,297,685
Uses of funds	**5,720,090**	**8,648,250**	**9,986,393**	**10,913,178**
BVPS (INR)	495.3	653.2	798.6	959.1

Free cash flow				(INR mn)
Year to March	FY18	FY19	FY20E	FY21E
Reported Profit	360,750	395,880	476,071	572,019
Add: Depreciation	167,060	209,340	216,336	265,594
Interest (Net of Tax)	58,752	118,898	138,831	148,644
Others	26,318	(1,768)	404,851	408,844
Less: Changes in WC	(132,210)	1,212,510	(245,250)	(130,759)
Operating cash flow	745,090	(490,160)	1,481,338	1,525,860
Less: Capex	739,530	(118,806)	483,397	322,257
Free Cash Flow	**5,560**	**(371,354)**	**997,941**	**1,203,603**

Cash flow metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating cash flow	745,090	(490,160)	1,481,338	1,525,860
Financing cash flow	(20,010)	1,190,395	(831,063)	(322,412)
Investing cash flow	(682,900)	(1,321,104)	(299,741)	(202,567)
Net cash Flow	42,180	(620,868)	350,533	1,000,881
Capex	(739,530)	118,806	(483,397)	(322,257)
Dividend paid	(41,036)	(48,065)	(58,444)	(64,289)

Profitability and efficiency

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	12.8	11.5	10.9	10.9
ROACE (%)	11.7	11.0	10.9	11.8
Inventory Days	74	58	70	71
Debtors Days	12	15	20	14
Payable Days	125	100	96	92
Cash Conversion Cycle	(40)	(26)	(5)	(6)
Current Ratio	0.8	2.0	8.4	5.6
Gross Debt/EBITDA	3.4	4.6	3.4	2.8
Gross Debt/Equity	0.7	1.0	0.7	0.6
Adjusted Debt/Equity	0.7	1.0	0.7	0.6
Net Debt/Equity	0.5	0.8	0.5	0.2
Interest Coverage Ratio	5.9	3.8	3.9	4.3

Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	0.7	0.8	0.5	0.5
Fixed Asset Turnover	1.3	1.4	1.1	1.4
Equity Turnover	1.4	1.6	1.0	1.1

Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	60.9	66.8	80.3	96.5
Y-o-Y growth (%)	*20.6*	*9.7*	*20.3*	*20.2*
Adjusted Cash EPS (INR)	94.5	108.4	119.4	144.8
Diluted P/E (x)	20.5	18.7	15.5	12.9
P/B (x)	2.5	1.9	1.6	1.3
EV / Sales (x)	2.9	2.3	2.7	2.2
EV / EBITDA (x)	14.0	12.6	10.0	7.5
Dividend Yield (%)	0.5	0.5	0.6	0.7
EV	11,394,192	12,966,562	12,112,037	12,112,037

Peer comparison valuation

	Market cap	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
Name	(USD mn)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Reliance Industries	116,473	15.5	12.9	10.0	7.5	10.9	10.9
Bharat Petroleum Corporation	11,031	8.4	7.0	7.3	6.8	21.2	23.2
Hindustan Petroleum Corporation	6,461	7.1	5.5	6.7	5.9	19.6	23.0
Indian Oil Corporation	20,233	7.2	5.7	5.4	4.6	16.6	19.2
Median	-	7.8	6.4	7.0	6.4	18.1	21.1
AVERAGE	-	9.6	7.8	7.4	6.2	17.1	19.1

Source: Edelweiss research

Additional Data

Directors Data

Mukesh D Ambani	Chairman and Managing Director	P M S Prasad	Executive Director
Pawan Kumar Kapil	Executive Director	Hital R Meswani	Executive Director
Nikhil R Meswani	Executive Director	Mansingh L Bhakta	Independent Director
Nita Ambani	Non Executive Non Independent Director	Raghunath A Mashelkar	Independent Director
Dharam Vir Kapur	Independent Director	Dipak C Jain	Independent Director
Yogendra P Trivedi	Independent Director	Ashok Misra	Independent Director
Adil Zainulbhai	Independent Director	Raminder S. Gujral	Independent Director

Auditors - Chaturvedi & Shah, Deloitte Haskins & Sells LLP, Rajendra & Co

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Devarshi commercials	11.21	Srichakra commercial	10.87
Karuna commercials l	8.02	Life insurance corp	7.42
Tattvam enterprises	6.81	Capital group compan	4.7
Reliance industries	4.06	Petroleum trust	3.8
Fmr llc	1.91	Vanguard group	1.82

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
15 Feb 2019	Jaidev A Dayal	Sell	50000.00
12 Feb 2019	Jaidev A Dayal	Sell	70000.00
28 Jan 2019	Sanjay U Mashruwala	Sell	16000.00
27 Aug 2018	Sanjay U Mashruwala	Sell	16000.00
13 Aug 2018	Sanjay U Mashruwala	Sell	20000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bharat Petroleum Corporation	BUY	SO	M	GAIL (INDIA)	HOLD	SP	L
Gujarat Gas	BUY	SO	M	Gujarat State Petronet	BUY	SO	M
Hindustan Petroleum Corporation	HOLD	SP	L	Indian Oil Corporation	BUY	SO	M
Indraprastha Gas	BUY	SO	M	Mahanagar Gas Ltd	BUY	SO	H
ONGC	BUY	SO	L	Petronet LNG	HOLD	SP	L
Reliance Industries	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Oil, Gas and Services

Bharat Petroleum Corporation, GAIL (INDIA), Gujarat Gas, Gujarat State Petronet, Hindustan Petroleum Corporation, Indraprastha Gas, Indian Oil Corporation, Mahanagar Gas Ltd, ONGC, Petronet LNG, Reliance Industries

Recent Research

Date	Company	Title	Price (INR)	Recos
06-Jun-19	**GAIL India**	Integrated HVJ tariff revision: Weaker than expected; *Company Update*	358	Hold
31-May-19	**ONGC**	Earnings marred by one-offs; subsidy overhang abates; *Result Update*	172	Buy
28-May-19	**GAIL India**	Earnings in line: LPG/petchem counterbalance trading ; *Result Update*	349	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

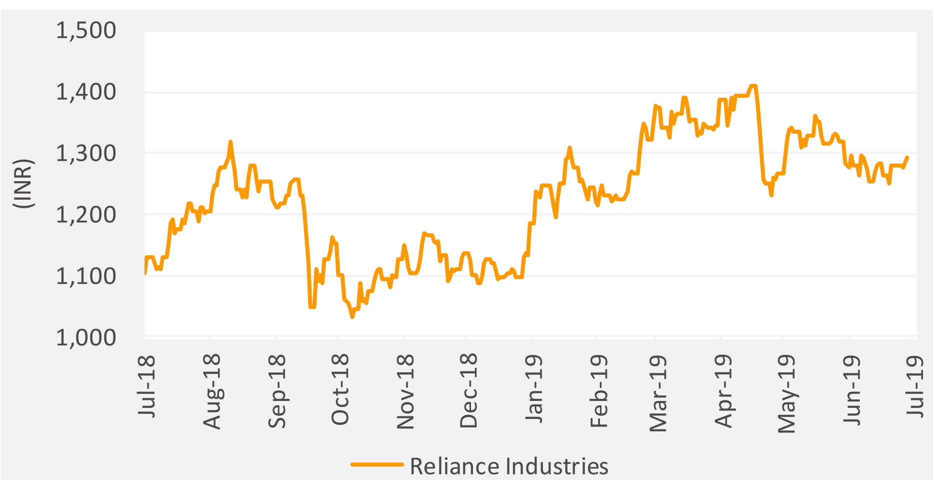
	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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