Equity Research

May 2, 2021

BSE Sensex: 48782

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Q4FY21 results review and earnings revision

Oil & Gas and Petrochemicals

Target price Rs2,033

Earnings revision

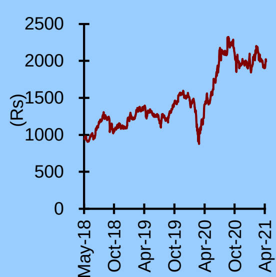
(%)	FY22E	FY23E
Sales	↓ 0.3	↓ 0.3
EBITDA	↓ 1.1	↑ 0.5
EPS	↓ 6.4	↑ 1.2

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	50.5	50.5	50.6
Institutional investors	38.4	38.1	38.3
MFs & other	5.1	4.9	4.4
FIs/ Banks	0.0	0.0	0.0
Insurance	5.9	5.8	5.9
FIIs	27.4	27.4	23.0
Others	11.1	11.4	11.1

Source: www.nseindia.com

Price chart



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Reliance Industries

HOLD

Maintain

Await triggers to boost stock performance

Rs1,994

Reliance Industries' (RIL) Q4FY21 recurring EPS was up 8% YoY driven by rise in retail and digital services EBITDA. FY21E recurring EPS was down 9% YoY with only digital services EBITDA being up YoY. Fall in Oil to Chemicals (O2C) EBITDA was modest in Q4 compared to FY21. Both Q4 and FY21 EPS was supported by sharp fall in tax. Petrochemicals and retail were the bright spots in Q4. Retail may lose momentum due to covid second wave while petrochemicals may be hit by large capacity additions in H2/Q4FY22E. Regaining momentum in subs addition, tariff hikes, retail growth back to pre-covid levels, GRM recovery and stake sale in O2C are key to stock performance improving (underperformed since Sep'20). Retain HOLD with a target price of Rs2,033 (2% upside).

- **Digital services and retail drive Q4 growth:** Q4FY21 consolidated recurring profit was up 17% and EPS up 8% YoY driven by 20-31% YoY rise in retail and digital services EBITDA and 48% YoY fall in tax. O2C EBITDA was down 5% YoY, but we estimate petrochemical EBITDA rise of 52% and refining EBITDA fall of 61% YoY. FY21 recurring profit was down 1% YoY and EPS 9% YoY, despite rise in digital services EBITDA by 46% YoY, other and interest income by 24% YoY (down 17% in Q4) and fall in tax by 87% YoY, hit by fall in retail and O2C EBITDA by 12-29% YoY.
- **Cut FY22E EPS by 6% and target price by 3%:** We have cut RIL's FY22E EPS by 6% mainly on cut in other income and digital services EBITDA. Target price is cut to Rs2,033 mainly on higher debt. We now estimate RIL's FY22E pre-tax profit to be up 45% YoY and EPS to be up 25% YoY driven by rise in digital services' EBITDA by 31% YoY, retail by 61% YoY (41% higher than in FY20) and O2C by 39% YoY. Retail EBITDA rose 20% YoY (core up 25% YoY) and 13% higher than earlier peak in Q3FY20. Downside to our FY22E retail EBITDA is not ruled out given lockdowns caused by covid second wave. RIL's core GRM is estimated at US$7/bbl in FY22E *vs* US$3.7-4.1/bbl in Apr'21. Recovery in diesel cracks, which were at US$4.8/bbl in Apr'21, to over US$11/bbl is key to RIL achieving GRM of US$7/bbl.
- **Delivery in new businesses and recovery in O2C key to improvement in stock performance**: After surge in share price up to mid-Sep'20, RIL has underperformed the market and peers across businesses probably due to weak net subscriber (sub) additions, no tariff hikes, retail below pre-covid levels until Q3, and GRM weakness. US supply disruptions boosted petrochemical margins, especially polymer, but large capacity additions in products that account for 70% of RIL's volumes may lead to petrochemical margin correction from FY22E highs. Stronger net sub additions, tariff hike, retail growth back to pre-covid levels, GRM recovery are key to stock performance improving. Stake sale in O2C at good valuation may also help.

Market Cap	Rs13097bn/US$176.9bn
Reuters/Bloomberg	RELI.BO/RIL IN
Shares Outstanding (mn)	6,339.4
52-week Range (Rs)	2325/1409
Free Float (%)	49.4
FII (%)	23.0
Daily Volume (US$/'000)	3,61,905
Absolute Return 3m (%)	8.3
Absolute Return 12m (%)	37.8
Sensex Return 3m (%)	5.6
Sensex Return 12m (%)	46.3

Year to Mar	2020	2021P	2022E	2023E
Revenue (Rs bn)	6,124	4,863	7,739	8,711
Net Income (Rs bn)	438	435	542	684
EPS (Rs)	74	67	84	106
% Chg YoY	12%	-9%	25%	26%
P/E (x)	27	30	24	19
CEPS (Rs)	102	109	137	168
EV/E (x)	17.5	19.2	13.0	10.9
Dividend Yield (%)	0.3%	0.4%	0.5%	0.5%
RoCE (%)	6.9%	6.3%	5.7%	6.5%
RoE (%)	10.3%	7.5%	7.3%	8.4%

TABLE OF CONTENTS

Triggers awaited to boost stock performance

Cut FY22E EPS and target price by 6-3%; retain **HOLD**

Cut FY22E EPS by 6% on cut in digital EBITDA and other income

We have cut RIL's FY22E EPS by 6% mainly due to cut in:

- Digital services EBITDA by 3% to Rs447bn on cut in ARPU to Rs157 from Rs164 earlier.
- Other and interest income by 14% to Rs140bn. We are now assuming other and interest income, which was up 24% YoY in FY21, to be down 14% YoY.

Estimate FY22 PBT to be up 45% YoY and EPS up 25% YoY

We now estimate RIL's FY22E pre-tax profit to be up 45% YoY and EPS to expand 25% YoY driven by rise in:

- Digital services' EBITDA by 31% YoY.
- Retail EBITDA by 61% YoY. Our FY22E retail EBITDA estimate is 41% higher than in FY20.
- O2C EBITDA by 39% YoY. We are assuming petrochemical EBITDA to be up 28% YoY and refining to be up 65% YoY.

Raise FY23E EPS by 1% on rise in digital EBITDA & cut in interest cost

We have raised RIL's FY23E EPS by 1% mainly due to:

- Rise in digital services EBITDA estimate by 1%.
- Cut in interest cost estimate by 8%.

Downside to FY22E retail EBITDA estimate not ruled out

Retail EBITDA was up 20% YoY (core up 25% YoY) and 13% higher than earlier peak in Q3FY20. State lockdowns due to second wave of covid mean downside to our FY22E retail EBITDA is not ruled out. Retail segment recovered with EBITDA being up YoY for the first time in pandemic-hit FY21 in Q4. However, the restrictions imposed due to second wave hurt retail as follows in Apr'21:

- Footfalls have dropped to 35-40% of pre-covid levels in Apr'21 *vs* 88% in Q4FY21, 75% in Q2-Q3FY21 and 43% in Q1FY21.
- Number of stores operational are also down in case of grocery to 80-90% operating at 50% efficiency *vs* 95% in Q4FY21, and 40-50% in case of electronics and F&L stores *vs* 94% in Q4FY21.

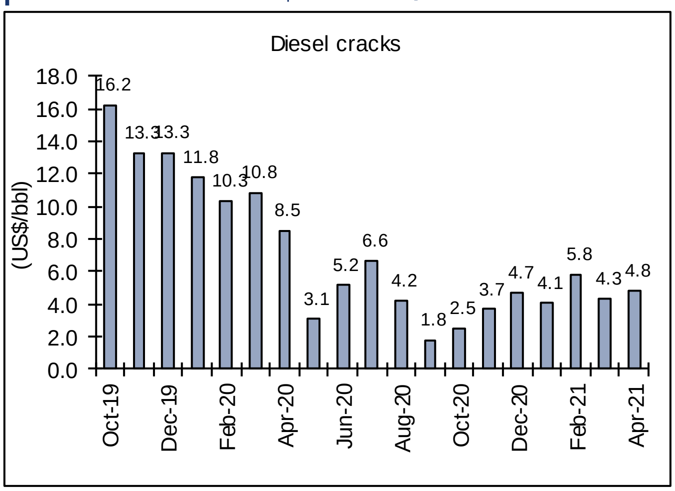
Chart 1: Footfalls dropped to 35% of pre-covid levels in Apr'21 *vs* 88% in Q4FY21; operational stores down to 44% from 94%

Source: Company data

Downside to refining EBITDA not ruled out; diesel cracks recovery key

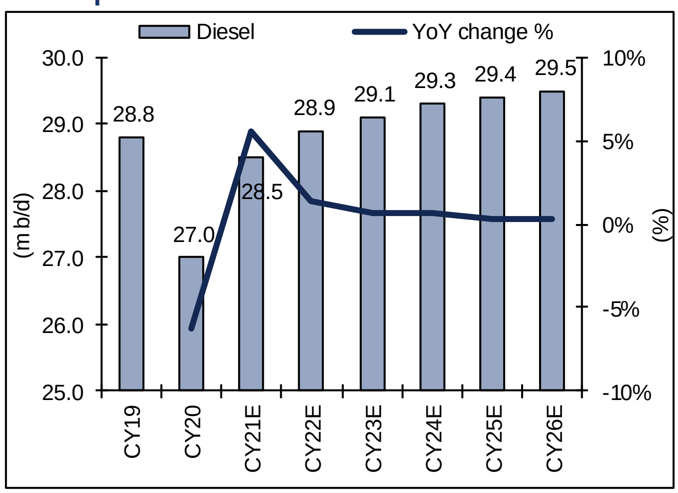
RIL's core GRM is estimated at US$7/bbl in FY22E *vs* US$3.7-4.1/bbl in Apr'21. Recovery in diesel cracks, which were at US$4.8/bbl in Apr'21, were well below pre-covid level of US$11.0-14.3/bbl in Q4-Q3FY20, is crucial to RIL's FY22E GRM being in line with our estimate of US$7/bbl. Diesel cracks appear hit by surge in covid in parts of Europe (23% of global diesel demand in CY19), especially Germany, and rise in refinery yields as jet fuel output is capped. Recovery in global diesel demand (as vaccines are rolled out globally) and refinery closures are likely to drive recovery in diesel cracks. IEA estimates global diesel demand to be at pre-covid level in CY22E. Diesel demand in Mar'21 in five countries which account for 25% of global demand was down 3.5% *vs* Mar'19 levels (up 11.8% YoY). This compares with 3.8% YoY fall in Feb'21 (based on six countries – 27% of global demand). Global refinery utilisation is estimated at 77.8-79.2% in CY21-CY22E from 37-year low of 72.5% in CY20.

Chart 2: Diesel cracks at US$4.8/bbl in Apr'21 *vs* pre-covid level of US$10.3-16.2/bbl



Source: Reuters, I-Sec research

Chart 3: IEA estimates global diesel demand to go above pre-covid levels in CY22E



Source: IEA, I-Sec research

Cut target price by 3% to Rs2,033; implies 2% upside

We have cut our target price by 3% to Rs2,033 mainly on higher debt. Our target price implies 2% upside. It is a 'sum of the parts' (SoTP) valuation, which values RIL's:

- O2C business at Rs3,896bn (US$53bn), or Rs605/share, based on 7x FY23E O2C EBITDA.
- 85.1% stake in organised retail business (RRVL) at Rs4,903bn (US$67bn), or Rs761/share based on 30x FY23E retail EBITDA.
- 67.1% stake in digital services business (Jio Platforms) at Rs4,103bn (US$56bn), or Rs637/share based on DCF-based EV of Reliance Jio Infocomm Ltd (RJio) and valuing Jio Platforms (excluding RJio) at Rs488bn (US$6.7bn) based on 15x FY23E EBITDA.
- Oil & gas business, including gas reserves in India and US shale assets at Rs302bn (US$4bn), or Rs47/share on DCF basis.
- Media business at market value of its investment in the media at Rs17bn, or Rs3/share.
- Net debt of Rs607bn in Mar'22.

Fair value would be lower at Rs1,981/share (1% downside) if we value RJio at 12x FY23E EBITDA, which works out to Rs3,772bn (US$52bn).

Table 1: RIL's 'sum of the parts' (SoTP) valuation works out to Rs2,033

		Valuation			
Business	**Valuation measure used**	**US$ bn**	**Rs bn**	**Rs/share**	**Break-up**
Rs/share					
Petrochemicals	7x FY23E EV/EBITDA	30	2,196	341	16%
Refining	7x FY23E EV/EBITDA	23	1,700	264	12%
Oil & gas	DCF	4	302	47	2%
Media	Market value	0.2	17	3	0%
Retail	30x FY23E EV/EBITDA	67	4,903	761	36%
Digital services	DCF	63	4,591	712	33%
		188	**13,709**	**2,127**	**100%**
Less: net debt		8	607	94	
Sum of parts valuation		**179**	**13,102**	**2,033**	

Source: I-Sec research

Debt assumed to be higher than earlier; Mar'21 higher than estimate

Net debt stood at Rs376bn and that including suppliers' credit and deferred spectrum liability was at Rs685bn in FY21. **Rs421bn of deferred liability on spectrum bought in Mar'21 was not accounted in FY21 but will be accounted in FY22E; if accounted in Mar'21, net debt would have been higher at Rs1,016bn in Mar'21.** Thus, net debt in Mar'21 was higher than our earlier estimate of Rs254bn-903bn. Therefore, our net debt/cash estimates for FY22E-FY23 have changed as follows:

- Net debt including suppliers' credit and deferred spectrum liability is estimated at Rs607bn in FY22E *vs* Rs288bn estimated earlier. Net cash excluding suppliers' credit and deferred spectrum liability is estimated at Rs68bn in FY22E *vs* Rs351bn estimated earlier.
- Net cash including suppliers' credit and deferred spectrum liability is estimated at Rs101bn in FY23E *vs* Rs417bn estimated earlier, and that excluding it is estimated at Rs755bn in FY23 *vs* Rs1,041bn estimated earlier.

Table 2: Net debt of Rs607bn estimated in FY22E *vs* Rs288bn earlier and net cash at Rs101bn in FY23E *vs* Rs417bn earlier

	FY20	FY21	FY22E	FY23E
Gross debt	3,363	2,518	1,315	1,080
Cash & cash equivalents	1,753	2,142	1,383	1,835
Net debt	**1,610**	**376**	**(68)**	**(755)**
Suppliers' credit	500	120	110	100
Deferred spectrum liability	188	188	565	554
Net debt + suppliers' credit and deferred spectrum liability	**2,299**	**685**	**607**	**(101)**

Source: I-Sec research

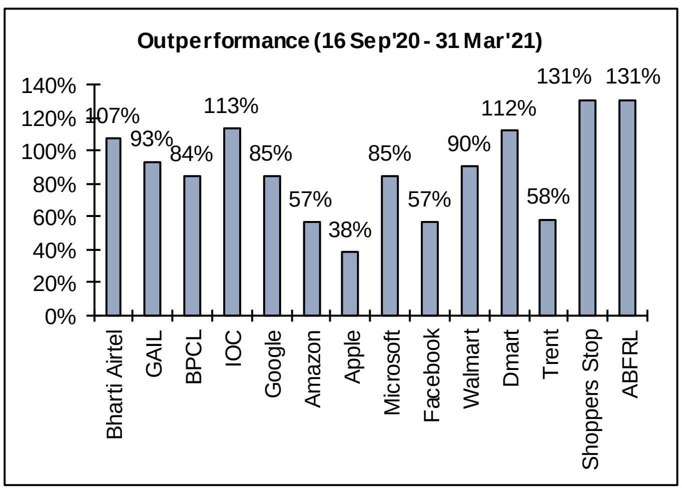
Digital/retail delivery & O2C recovery key to stock performance

RIL has underperformed the market and peers since mid-Sep'20

After surge in share price up to mid-Sep'20, RIL has underperformed the market and peers across its businesses probably due to:

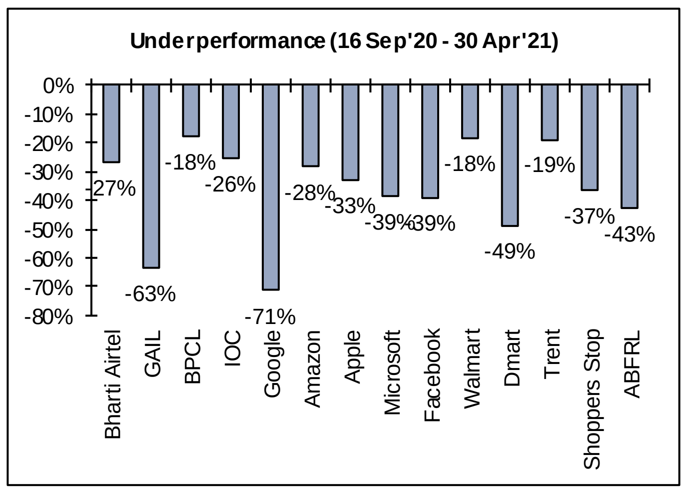
- Weak net subscriber (sub) additions
- No tariff hikes
- Retail EBITDA and revenue below pre-covid levels until Q3
- GRM weakness

Chart 4: RIL outperformed all its Indian and international peers in FY21 up to 16-Sep'20



Source: Bloomberg, I-Sec research

Chart 5: Since 16-Sep'20, RIL underperformed all Indian and international peers



Source: Bloomberg, I-Sec research

Tariff hike, higher GRM & retail growth at pre-covid levels are triggers

RIL's stock performance is likely to improve if some or all of these triggers play out:

- Net subs additions momentum is regained
- Tariff is hiked
- Retail growth is back to pre-covid levels
- There is strong GRM recovery
- Stake in O2C is sold at a good valuation

RJio needs tariff hikes to offset higher cost inflation

Network cost rose 30% in FY21 to Rs221bn and, considering rise in payment to tower and fiber InvIT, we estimate network cost inflation to remain high even in the next two years at least, not considering 5G rollout. Further, the recent spectrum purchase would add Rs29bn to D&A cost and Rs27bn to finance cost, which together are 8% of revenues. In case of low revenue growth as in Q4FY21, we see RJio running a risk of significant earnings decline in FY22. We believe the company will also need tariff hikes to maintain earnings growth momentum, which we have built-in for H2FY22E.

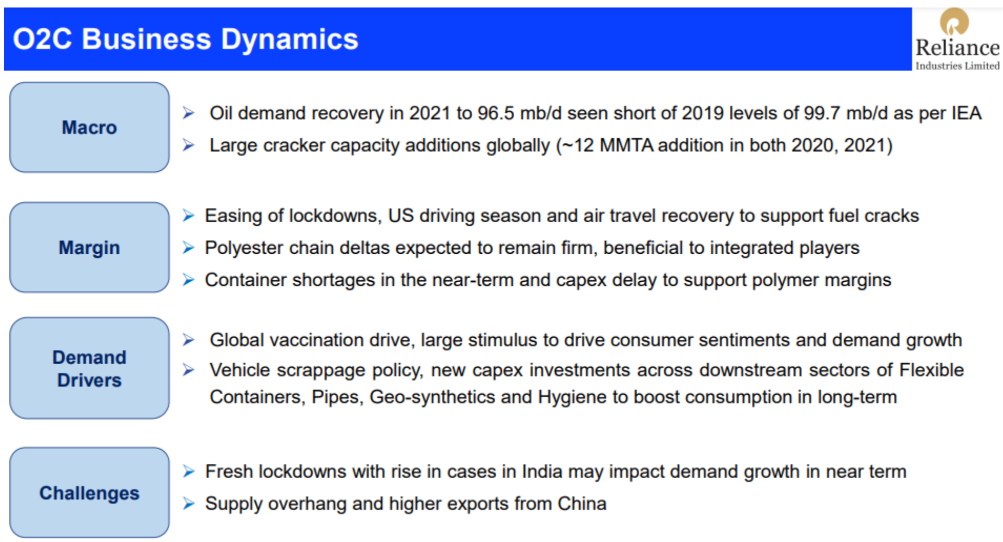
Takeaways from Q4 investor meet and presentation

Key takeaways from RIL's Q4FY21 investor meet and presentation:

Refining and petrochemicals

- **Domestic polymer demand was up 12% YoY and polyester by 21% YoY in Q4FY21**.
- **Polymer margins were at multi-year high and polyester margins strengthened in Q4FY21**. Snowstorms in US shut large petrochemical capacity and boosted margins. Global cracker rates were down to 75% in Q4FY21 *vs* 86% in Q3.
- **Supply overhang and higher exports from China may hurt petrochemical margins**: Large petrochemical capacity addition in China may create supply overhang and result in higher exports from China. This may hurt petrochemical margins in the medium term.

Chart 3: Slowdown in demand growth due to second wave of covid and large petrochemical capacity additions are headwinds to O2C outlook



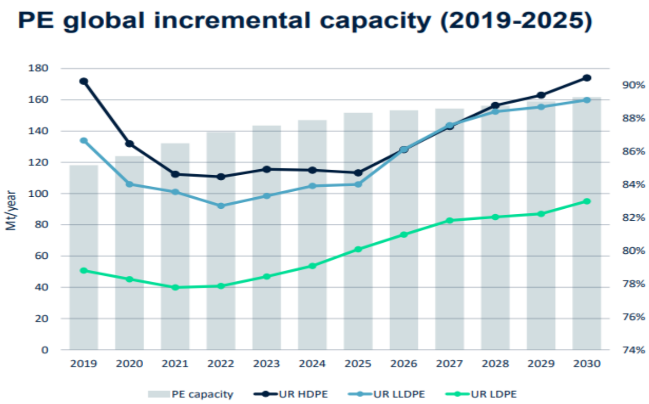
Source: Company data

Big capacity additions in products that are over 70% of RIL's volumes

Large capacity additions are likely in the following five products that account for over 70% of RIL's petrochemical volumes:

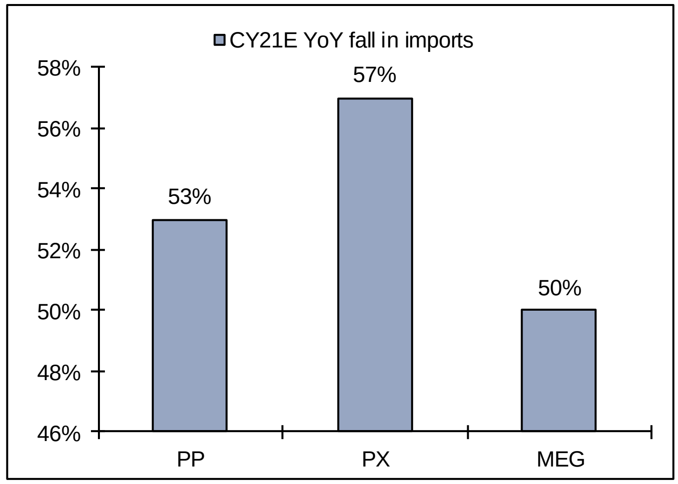
- As per ICIS, 28.4mmtpa of polyethylene (PE) capacity would be added in CY20E-CY25E, which would imply that global PE utilisation would reach CY19 level only in CY28E putting pressure on PE margin.
- ~15mmtpa of PP capacity addition is estimated in CY20-CY21E *vs* the best case global demand rise of 5.6mmtpa leading to fall in global PP utilisation to 82% in CY21E.
- Large capacity additions are headwinds to PX, PTA and MEG margins too.

Chart 6: Global PE planned capacity addition of 28.4mmtpa in CY20-CY25E



Source: ICIS, I-Sec research

Chart 7: Chinese imports of PP, PX & MEG to fall by 53%, 57% and 50% YoY respectively in CY21E



Source: ICIS, I-Sec research

China petrochemical imports to decline as it adds capacity

China's petrochemicals imports are expected to decline as it adds capacity. In CY20, China accounted for:

- 43% of global net PP imports
- 90% of global net PX imports
- 87% of global net imports of MEG

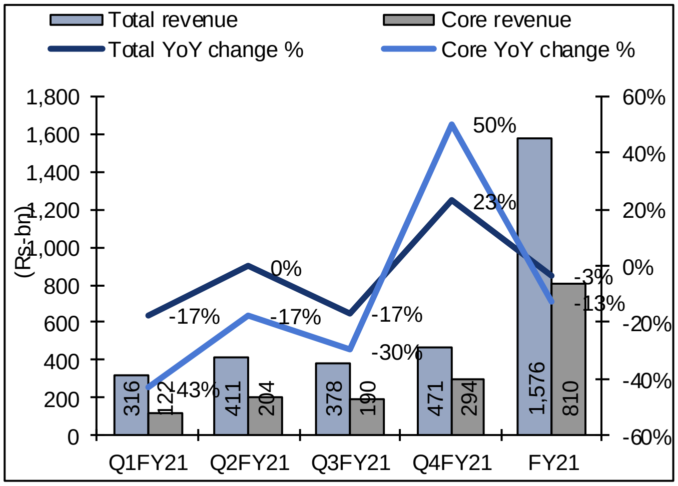
ICIS expects China's PP imports to fall by 53% YoY, PX imports by 57% YoY and MEG imports by 50% in CY21E.

Retail

- **Grocery and F&L revenues hit all-time high thereby driving retail revenues also to all-time high in Q4FY21:** Retail revenues were up 23% YoY and 24% QoQ in Q4FY21 with core revenues up 50% YoY and 55% QoQ (we have assumed connectivity revenues to be 2% higher than Jio's revenue in-line with past trends). Consumer electronics revenue growth was in double digits while Grocery and Fashion & Lifestyle (F&L) hit all-time high revenues in Q4 with:
    - 3x QoQ growth in *Jiomart Kirana* partnerships with service coverage now in 33 cities (10 added in Q4FY21).
    - 4x YoY growth in booking revenues in AJIO.
    - 2x growth in revenues from Trends stores in small towns, which are now over 55% of sales.
    - 3x YoY growth in digital commerce in F&L and 1.8x YoY rise in Reliance Jewels revenues.
    - Growth across categories in consumer electronics and bounce-back on devices sales led by Jio phones.

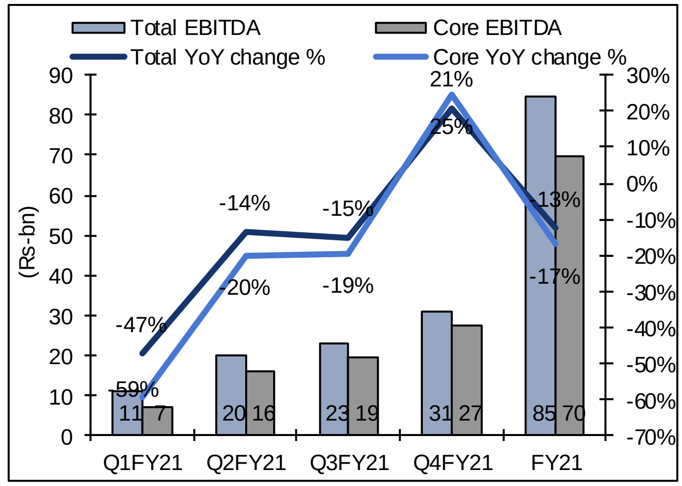
- **Retail EBITDA up YoY for the first time in FY21 in Q4:** Retail's Q4FY21 EBITDA excluding investment income of Rs5.34bn was up 21% YoY and 33% QoQ with margin at 6.6% *vs* 6.1% in Q3FY21. Its core EBITDA was up 25% YoY and 41% QoQ with margin at 9.3% *vs* 10.2% in Q3FY21 (we have assumed connectivity EBITDA margin at 2%, in-line with past trends).

Chart 8: Total & core retail revenues up 23-50% YoY in Q4FY21; first YoY rise in FY21



Source: Company data, I-Sec research

Chart 9: Total and core retail EBITDA up 21-25% YoY in Q4FY21; first YoY rise in FY21

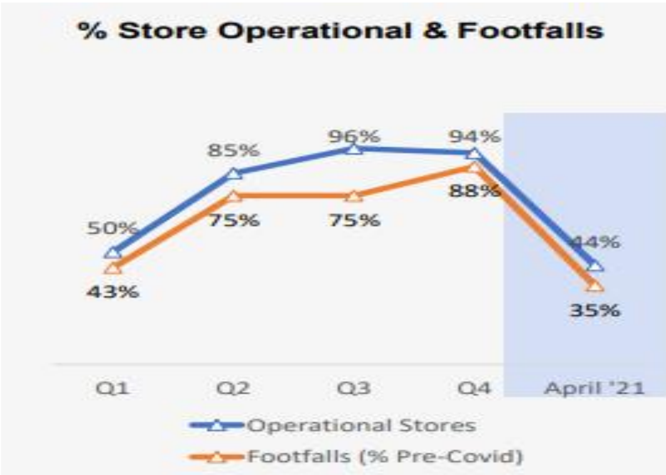


Source: Company data, I-Sec research

- **Q4FY21 net profit up 45% YoY (also boosted by investment income) and 23% QoQ.**

- **Accelerated pace of new stores addition:** RRVL added 826 new stores in Q4FY21, and area of 3.2mn-sqft, taking up the number of total stores to 12,711 and total area of 33.8mn-sqft.
- **Headwinds ahead with reduced footfalls and stores operational:** Footfalls in stores stood at 88% of pre-covid levels in Q4FY21 *vs* 75% in Q2-Q3FY21 and 43% in Q1FY21. However, in Apr'21 footfalls have dropped to 35-40%. Similarly, 94% of stores were operational in Q4FY21 *vs* 96% in Q3, 85% in Q2 and 50% in Q1. However, 80-90% of grocery stores were operational in Apr'21 (*vs* 95% in Q4FY21) while operating at 50% efficiency in terms of hours of day when open, and 40-50% of electronics and F&L stores were operational in Apr'21 (*vs* 94% in Q4).
- **RIL's key priorities for retail in FY22** are stepping up pace of new stores opening, accelerate digital commerce, and expand category play on JioMart. It also plans to scale up own brands including recent acquisitions (*Urban Ladder* and *Zivame*).

Chart 10: Footfalls dropped to 35% of pre-covid levels in Apr'21 *vs* 88% in Q4FY21



Source: Company data, I-Sec research

Chart 11: Priorities for FY22 to open new stores and accelerate digital commerce

Source: Company data, I-Sec research

Reliance Jio Infocomm (RJio)

- **Reliance Jio Infocomm (RJio) L2L revenues grew only 1.7% QoQ**: In Q4FY21, revenues declined by 6.1% QoQ due to: 1) interconnect charges moving to 'book & keep' regime w.e.f. 1st Jan'21, which implies nil interconnect revenues; and 2) two days' less in the quarter. Our L2L revenues for Q3FY21 was derived from deducting interconnect revenues, which is calculated from access charges adjusted for non-IUC revenues, and adding the Rs0.5bn received in net interconnect settlement. It shows RJio's revenues grew by just 1.7% QoQ to Rs174bn, and L2L ARPU (excl. interconnect revenues) dipped by 0.8% QoQ to Rs138. Sub-base expanded by 15.4mn, likely helped by new tariff plan launch on Jiophone (at 18-33% discount); however, absolute ARPU (post GST) comes to just Rs46-56 (33-40% of blended ARPU) from the Jiophone users.

Table 4: Reliance Jio (standalone) financial

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Revenue	**1,48,350**	**1,65,570**	**1,74,810**	**1,84,920**	**1,73,580**	**(6.1)**	**17.0**
Network operation cost	45,600	52,250	54,260	56,530	57,540	1.8	26.2
% of revenue	*30.7*	*31.6*	*31.0*	*30.6*	*33.1*		
Access charges	13,670	13,930	15,100	15,490	1,790	(88.4)	(86.9)
% of revenue	*9.2*	*8.4*	*8.6*	*8.4*	*1.0*		
License fees and spect charges	15,760	18,180	19,460	20,390	19,520	(4.3)	23.9
% of revenue	*10.6*	*11.0*	*11.1*	*11.0*	*11.2*		
Employee cost	3,870	3,180	3,310	3,430	3,450	0.6	(10.9)
% of revenue	*2.6*	*1.9*	*1.9*	*1.9*	*2.0*		
SGA and other exp	7,700	7,980	7,640	7,940	8,380	5.5	8.8
% of revenue	*5.2*	*4.8*	*4.4*	*4.3*	*4.8*		
EBITDA	**61,750**	**70,050**	**75,040**	**81,140**	**82,900**	**2.2**	34.3
EBITDA margin (%)	*41.6*	*42.3*	*42.9*	*43.9*	*47.8*		
Depreciation and amortisation	21,680	27,380	28,710	29,100	30,150	3.6	39.1
EBIT	**40,070**	**42,670**	**46,330**	**52,040**	**52,750**	**1.4**	**31.6**
Interest	11,330	11,680	10,220	8,500	8,000	(5.9)	(29.4)
Other income	260	2,760	1,970	520	230		
PBT	**29,000**	**33,750**	**38,080**	**44,060**	**44,980**	**2.1**	**55.1**
Provision for tax	6,000	8,550	9,640	11,150	11,380	2.1	89.7
Effective tax rate (%)	*20.7*	*25.3*	*25.3*	*25.3*	*25.3*		
exceptions	*(310)*	-	-	-	-		
Net income (reported)	**23,310**	**25,200**	**28,440**	**32,910**	**33,600**	**2.1**	**44.1**

Source: Company data, I-Sec research

- FTTH subs addition should have been steady at 1.8mn-1.9mn for Q4FY21 on the base of 2.1mn in Q3FY21. If we adjust for FTTH revenues, then, underlying mobile revenues should have grown at only ~1% QoQ, which indicates RJio may be running into a risk of revenue market share loss in Q4FY21.

Table 5: Reliance Jio (standalone): ARPU dip 8.5% QoQ on nil Interconnect revenue and lower number of days (2 days' lower)

	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ (%)	YoY (%)
Subscirbers (mn)	388	398	406	411	426	3.7	10.0
Net adds (mn)	*17.5*	*10.8*	*7.3*	*5.2*	*15.4*		
Gross adds (mn)	*24.0*	*15.1*	*27.2*	*25.1*	*31.2*		
ARPU (Rs)	131	140	145	151	138	(8.5)	5.8
Inc. ARPU (Rs)	*179*	*406*	*340*	*539*	*(367)*	(168.1)	(305.1)
Churn (%)	0.6	0.4	1.7	1.6	1.3		
Minutes of Use (min/subs)	771	755	773	796	823	3.4	6.7
Minutes on Network (mn)	8,76,340	8,89,440	9,32,230	9,74,960	10,33,277	6.0	17.9
Data usage per sub (MB)	11,300	12,047	11,958	12,951	13,286	2.6	17.6
Data volume (mn MB)	1,28,40,000	1,42,00,000	1,44,20,000	1,58,60,000	1,66,80,000	5.2	29.9

Source: Company data, I-Sec research

- **Engagement metrics have improved:** Churn rate dipped to 1.3% (vs 1.6% in Q3FY21) improving its subs retention rate, while gross subs addition increased to 31.2mn (from 25.1mn in Q3FY21). Minutes grew 6% QoQ / 17.9% YoY to 1,033-bn, and data usage rose by 5.2% QoQ / 29.9% YoY to 16,680-bn GB.
- **Network cost inflation was lower, aiding EBITDA growth**: Network cost grew by only 1.8% QoQ, but increased by 26.2% YoY, to Rs57.5bn in Q4FY21. LF/SUC cost fell 4.3% QoQ despite rise in revenues, implying some likely one-off gains. EBITDA grew 2.2% QoQ / 34% YoY to Rs83bn, and net profit too grew 2.1% QoQ, though it was restricted by rise in depreciation.
- **Capex (excluding spectrum) has normalised**: Cash capex was Rs261bn in FY21 though it includes Rs150bn upfront payment towards spectrum. Thus, capex towards network, including cost capitalisation, was Rs111bn. Capitalised capex, calculated basis movement of fixed assets plus depreciation, was Rs150bn (21.4% of revenues) in FY21. Therefore, the difference between capitalised capex and cash capex is rise in capex creditor of Rs39bn. Capitalised capex in FY20 was Rs235bn (43.2% of revenues). However, RJio is still carrying high capital works in progress despite commercial rollout of FTTH / enterprise business, which was at Rs170bn in FY21 (but dipped from Rs213bn in FY20).
- **Balance sheet remains healthy; net debt rose on spectrum purchase**. RJio net debt (including deferred spectrum liability) in FY21 was at Rs290bn (vs Rs332bn in FY20). It has bid for spectrum worth Rs571bn in Mar'21 auction and has agreed to buy Rs15bn worth of spectrum from Bharti. It has made Rs150bn upfront payment, which is reflected in capex and sits in other non-current assets. However, it has not recognised other spectrum liabilities pending spectrum allocation. If we include the entire committed spectrum payment, then the net debt would jump to Rs726bn.
- We estimate capex creditors should have gone up from Rs44bn in FY20 to Rs82bn in FY21, and interest accrued but not paid (on deferred spectrum liability) should increase to Rs85bn from Rs70bn in FY20. These items don't form part of our net debt calculation.

E&P update

- **Gas prices realisation improving; to be higher YoY in FY22:** RIL expects gas prices realisation to be higher YoY in FY22.
- **KG-D6 production ahead of plan:** RIL's R-cluster field had commenced production in Dec'20 and has reached peak production of ~12.8mmscmd in mid-Apr'21, ahead of plan. Satellite cluster too has commenced production in Apr'21 (two months ahead of plan) while MJ filed is expected to be commissioned by Q3FY23.
- **Third round of gas auction expected in early May'21:** Two auctions have been conducted for price discovery of R-cluster gas in Nov'19 and Feb'21 respectively. Gas price discovered for 5mmscmd gas in the first auction was 8.5-8.6% of three months' average Brent price. Gas price for 7.5mmscmd of gas in the second auction was US$0.18/mmbtu discount to JKM spot LNG. The third round of bidding is expected in early May'21.

US shale update

- **Another shale asset sold:** RIL has sold its Marcellus Shale asset to Northern Oil & Gas (NOG) for US$175mn cash and warrants entitling RIL to purchase 3.25mn common shares of NOG at US$14/share in next seven years. RIL now has only one US shale asset in the Eagle Ford Shale, in which it has 45% working interest with Ensign Natural Resources as its partner. We believe RIL will exit the remaining sole asset too.

RIL's capex, and gross and net consolidated debt

- **Consolidated net debt at Rs376-685bn in Mar'21 down from Rs1,610-2,299bn in Mar'20:** RIL's net debt including suppliers' credit and deferred spectrum liability was down to Rs685bn in Mar'21 from Rs2,299bn in Mar'20. **Rs421bn of deferred liability on spectrum bought in Mar'21 was not accounted in FY21 but will be accounted in FY22E; if accounted, net debt would have been higher at Rs1,016bn in Mar'21.** Net debt excluding suppliers' credit and deferred spectrum liability was down to Rs376bn in Mar'21 from Rs1,610bn in Mar'20.

Table 6: RIL's net debt excluding & including suppliers' credit/deferred spectrum liability at Rs376-685bn in Mar'21 down from Rs1,610-2,299bn in Mar'20

Rs-bn	FY20	FY21
Gross debt	3,363	2,518
Cash & cash equivalents	1,753	2,142
Net debt	**1,610**	**376**
Suppliers' credit	500	120
Deferred spectrum liability	188	188
Net debt + suppliers' credit and deferred spectrum liability	**2,299**	**685**

Source: Company data, I-Sec research

Q4FY21 EPS up 8% YoY; FY21 EPS down 9% YoY

Q4 recurring EPS up 8% YoY driven by retail, digital & petchem

Q4 recurring EPS up 8% YoY on interest cost and tax decline

Q4FY21 consolidated recurring profit was up 17% YoY. Dilution of equity due to the rights issue meant Q4FY21 consolidated recurring EPS rose 8% YoY. The main drivers of Q4 earnings rise were:

- 6% YoY rise in consolidated EBITDA
- 33% YoY fall in interest cost to Rs40.4bn
- 48% YoY fall in tax to Rs13.9bn

Table 7: Q4FY21 consolidated recurring EPS up 8% YoY; FY21 recurring EPS down 9% YoY

(Rs mn, year ending March 31)

	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Net sales	15,48,960	13,95,350	11%	48,63,260	61,24,370	-21%	12,39,970	25%
Total expenditure	13,15,450	11,75,010	12%	40,55,890	52,34,280	-23%	10,24,310	28%
EBITDA	**2,33,510**	**2,20,340**	**6%**	**8,07,370**	**8,90,090**	**-9%**	**2,15,660**	**8%**
EBITDA margin	**15.1%**	**15.8%**		**16.6%**	**14.5%**		**17.4%**	
Interest	40,440	60,640	-33%	2,11,890	2,20,270	-4%	43,260	-7%
Depreciation	69,730	63,320	10%	2,65,720	2,22,030	20%	66,650	5%
Interest Income	22,410	22,220	1%	95,190	94,780	0%	21,310	5%
Other Income	9,960	16,590	-40%	68,080	36,860	85%	23,220	-57%
PBT	**1,55,710**	**1,35,190**	**15%**	**4,93,030**	**5,79,430**	**-15%**	**1,50,280**	**4%**
Tax	13,870	26,770	-48%	17,220	1,37,260	-87%	880	1476%
Minority Interest	17,680	1,980	793%	46,110	5,260	777%	17,930	-1%
Share of profit of associates	140	-290	-	5,160	1,070	382%	750	-81%
Recurring consolidated PAT	**1,24,300**	**1,06,150**	**17%**	**4,34,860**	**4,37,980**	**-1%**	**1,32,220**	**-6%**
Extra-ordinary items	7,970	-42,670	-	56,420	-44,440	-	-1,210	-
Reported consolidated PAT	**1,32,270**	**63,480**	**108%**	**4,91,280**	**3,93,540**	**25%**	**1,31,010**	**1%**
Recurring EPS	**19.3**	**17.9**	**8%**	**67.5**	**73.9**	**-9%**	**20.5**	**-6%**
Reported EPS	**20.5**	**10.1**	**104%**	**76.2**	**61.9**	**23%**	**20.3**	**1%**

Source: Company data, I-Sec research

Q4 EPS up 8% YoY driven by retail, digital and petrochemical EBITDA

Q4FY21 consolidated recurring EPS rise of 8% YoY was driven by:

- 20% YoY rise in retail EBITDA to Rs31bn excluding investment income of Rs5.34bn
- 31% YoY in digital services EBITDA to Rs89bn

O2C EBITDA was down 5% YoY but we estimate that:

- Petrochemical EBITDA was up 52% YoY to eight-quarter high
- Refining EBITDA was down 61% YoY

FY21 recurring EPS down 9% YoY hit by O2C and retail EBITDA fall

FY21 recurring profit was down 1% YoY and EPS 9% YoY hit by fall in:

- Retail EBITDA by 12% YoY to Rs85bn excluding investment income of Rs13.3bn
- O2C EBITDA by 29% YoY

Table 8: Q4FY21 consolidated segment EBITDA up 9% YoY driven by 20-31% YoY rise in retail and digital services EBITDA

(Rs mn)	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Petrochemicals	90,290	59,380	52%	2,71,329	3,09,330	-12%	77,099	17%
Refining	23,780	60,230	-61%	1,10,371	2,28,700	-52%	20,461	16%
O2C	**1,14,070**	**1,19,610**	**-5%**	**3,81,700**	**5,38,030**	**-29%**	**97,560**	**17%**
Oil & gas	4,800	(460)	-	2,580	3,530	-27%	40	11900%
Retail	30,890	25,690	20%	85,330	96,950	-12%	23,270	33%
Digital services	89,450	68,330	31%	3,40,350	2,33,480	46%	89,420	0%
Others	13,080	18,490	-29%	63,680	48,000	33%	17,970	-27%
EBITDA (excluding unallocated)	**2,52,290**	**2,31,660**	**9%**	**8,73,640**	**9,19,990**	**-5%**	**2,28,260**	**11%**

Source: Company data, I-Sec research

FY21 EPS down despite digital EBITDA and other income rise & tax fall

The fall in FY21E recurring EPS was despite:

- Rise in digital services EBITDA by 46% YoY
- Rise in other & interest income by 24% YoY
- Fall in tax by 87% YoY

Table 9: Q4FY21 standalone recurring EPS up 3% YoY; FY21 EPS down 28% YoY

(Rs mn, year ending March 31)

	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Net sales	8,59,770	7,72,270	11%	26,50,690	35,18,550	-25%	6,74,000	28%
Total expenditure	7,57,840	6,56,560	15%	23,15,690	29,90,270	-23%	5,87,100	29%
EBDITA	**1,01,930**	**1,15,710**	**-12%**	**3,35,000**	**5,28,280**	**-37%**	**86,900**	**17%**
EBDITA margin	**11.9%**	**15.0%**		**12.6%**	**15.0%**		**12.9%**	
Interest	30,010	41,610	-28%	1,62,110	1,21,050	34%	31,400	-4%
Depreciation	25,820	26,850	-4%	91,990	97,280	-5%	22,090	17%
Interest Income	24,760	26,410	-6%	1,09,590	94,420	16%	26,390	-6%
Other Income	3,210	10,770	-70%	38,590	41,240	-6%	9,770	-67%
PBT	**74,070**	**84,430**	**-12%**	**2,29,080**	**4,45,610**	**-49%**	**69,570**	**6%**
Current tax	(2,100)	16,180	-	(47,320)	94,130	-	(17,870)	-
Recurring PAT	**76,170**	**68,250**	**12%**	**2,76,400**	**3,51,480**	**-21%**	**87,440**	**-13%**
Exceptional item	-	(42,450)	-	43,040	(42,450)	-	(1,160)	-
Reported PAT	**76,170**	**25,800**	**195%**	**3,19,440**	**3,09,030**	**3%**	**86,280**	**-12%**
Recurring EPS	**11.8**	**11.5**	**3%**	**42.9**	**59.3**	**-28%**	**13.6**	**-13%**
Reported EPS	**11.8**	**4.1**	**190%**	**49.6**	**48.8**	**2%**	**13.4**	**-12%**

Source: Company data, I-Sec research

Table 10: Q4FY21 standalone segment EBITDA down 7% YoY, hit by 63% YoY fall in refining EBITDA

(Rs mn)	Q4FY21	Q4FY20	Change	FY21	FY20	Change	Q3FY21	Change
Petrochemicals	90,000	60,020	50%	2,67,470	3,04,160	-12%	75,520	19%
Refining	22,150	59,580	-63%	99,040	2,26,750	-56%	15,980	39%
O2C	**1,12,150**	**1,19,600**	**-6%**	**3,66,510**	**5,30,910**	**-31%**	**91,500**	**23%**
Oil & gas	3,310	430	670%	3,880	7,380	-47%	150	2107%
Retail	80	130	-38%	540	410	32%	130	-38%
Digital services	1,520	2,010	-24%	6,660	6,510	2%	1,690	-10%
Others	2,340	5,950	-61%	11,990	16,970	-29%	2,150	9%
EBITDA (excluding unallocated)	**1,19,400**	**1,28,120**	**-7%**	**3,89,580**	**5,62,180**	**-31%**	**95,620**	**25%**
Reported GRM (US$/bbl)	4.8	8.9	-46%	5.3	8.9	-41%	4.2	16%
Crude throughput (MMT)	17.1	18.3	-7%	65.7	70.6	-7%	16.7	2%
Brent (US$/bbl)	60.7	50.3	21%	44.7	64.3	-30%	44.6	36%
Exchange rate (INR-USD)	72.9	72.4	1%	74.2	70.4	5%	73.8	-1%

Source: Company data, I-Sec research

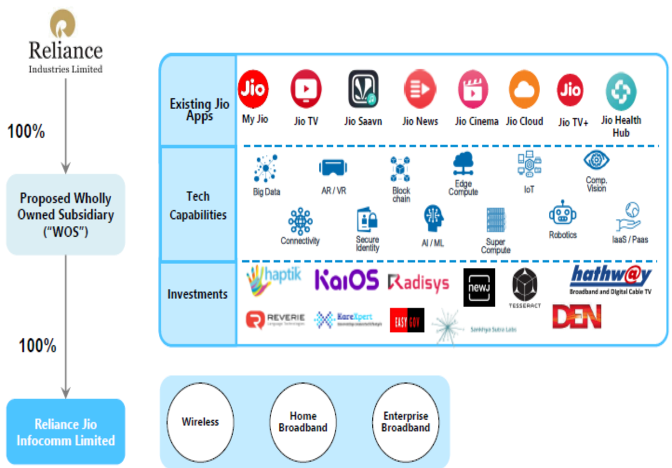
Note: Reported GRM in Q3-Q4FY21 & FY21 are our estimate

Risks

The main risks to our **HOLD** rating and investment thesis are:

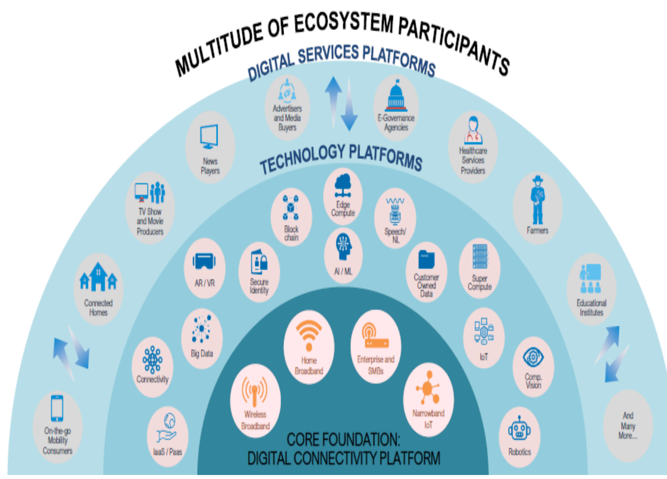
- **Jio Platforms Ltd (JPL) emerging as a successful digital services platforms company and being valued much higher than by us.** We are valuing it at Rs478bn (US$6.5bn) based on 15x FY23E EBITDA. Music app *JioSaavn*, in which RIL invested in 2018, may enjoy a high valuation as its subscribers, advertisement and subscription revenues and EBITDA grows; its global peer Spotify, which had revenues of US$9bn and EBITDA loss of ~US$350m in CY20, has a market cap of US$53bn.

Chart 12: JPL has many apps like *JioSaavn*, tech capabilities & is investing in creating an ecosystem



Source: Company data, I-Sec research

Chart 13: Next phase of growth is expected to be driven by multitude of digital services platforms



Source: Company data, I-Sec research

- **Higher or lower ARPU than estimated**. We estimate rise in RJio's ARPU by 10% YoY in FY22E, 10% YoY in FY23E, 8% YoY in FY24E, 6% YoY in FY25E and 5% YoY in FY26E to Rs208 in FY26E. Upside to fair value (FV) would be Rs55/share if ARPU rise is 10% YoY and Rs142/share if ARPU rise is 15% YoY in FY24-FY26E.

- **Any significant delay in return to normalcy may mean lower growth in retail than estimated**. Even in Q4FY21, 6% of the stores were fully shut. Second wave of covid in India has led to reimposition of restrictions, and may delay the return of normalcy and full reopening of all stores of RIL. This may mean RIL's retail revenue and earnings are lower than estimated. Downside to FV would be Rs56/share if retail revenue growth in FY22E and FY23E is 5 pct points lower than in base case,

- **GRM being lower than assumed:** Slow vaccine rollout, surge in covid cases and reimposition of lockdowns in Europe in particular and some other countries too, threaten to delay global demand recovery. This may mean slower recovery in GRMs and RIL's GRM being lower than estimated. However, slower recovery in global demand and weaker GRM for longer period may also hasten decision on refinery closures; in this scenario rebound in GRMs may be stronger though a little later than estimated. Downside to FV would be Rs41/share if FY23E GRM is US$1/bbl lower than estimated. It would be lower by Rs103/share if GRM is US$6/bbl *vs* US$8.5/bbl in the base case

- **Petrochemical EBITDA being lower or higher than estimated.** Large capacity additions of PE, PP, PX, PTA and MEG are likely to hurt petrochemical margins, which may mean downside to RIL's petrochemical EBITDA. We have therefore estimated RIL's petrochemical EBITDA to be down 10% YoY in FY23E. Hurricanes can cause prolonged shutdown of US gulf coast petrochemical capacity thereby boosting margins as was the case in CY20 due to hurricane Laura. Downside to FV would be Rs34/share if FY23E petrochemical EBITDA is 10% lower than estimated.

Table 11: If ARPU rise is higher at 10-15% in FY24E-FY26E, FV will be higher at Rs2,088-2,175/share implying 5-9% upside to share price

Change in RIL's FV if	Upside/downside to FV (Rs/share)	FV (Rs/share)	Upside/ downside vs CMP
ARPU rise 10% YoY in FY24-26E vs 8-5% base case	55	2,088	5%
ARPU rise 15% YoY in FY24-26E vs 8-5% base case	142	2,175	9%
Retail revenue growth 5 pct points lower than base case	(56)	1,976	-1%
FY23E GRM US$1/bbl lower than estimated	(41)	1,992	0%
FY23E GRM US$6/bbl vs US$8.5/bbl in the base case	(103)	1,930	-3%
FY23E petrochemical EBITDA 10% lower than base case	(34)	1,999	0%

Source: Company data, I-Sec research

Financial summary

Table 12: Profit and Loss statement

(Rs bn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Income (Sales)	**6,124**	**4,863**	**7,739**	**8,711**
Operating Expenses	**5,234**	**4,056**	**6,599**	**7,399**
EBITDA	**890**	**807**	**1,139**	**1,312**
% margins	14.5%	16.6%	14.7%	15.1%
Depreciation & Amortisation	222	266	343	397
Gross Interest	220	212	137	94
Other Income	132	163	140	174
Recurring PBT	**536**	**555**	**805**	**1,002**
Less: Taxes	137	17	186	224
Net Income (Reported)	**394**	**491**	**542**	**684**
Recurring Net Income	**438**	**435**	**542**	**684**

Source: Company data, I-Sec research

Table 13: Balance sheet

(Rs bn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	1,572	1,594	1,873	2,206
of which cash & cash eqv.	1,753	2,142	1,383	1,835
Total Current Liabilities & Provisions	2,453	2,021	1,679	1,935
Net Current Assets	**-881**	**-428**	**194**	**272**
Investments	**3,669**	**4,946**	**4,331**	**4,531**
Net Fixed Assets	**5,327**	**5,413**	**5,370**	**5,670**
Capital Work-in-Progress	1,091	1,260	1,485	1,450
Total Assets	**9,206**	**11,191**	**11,380**	**11,923**
Liabilities				
Borrowings	**4,051**	**2,826**	**1,990**	**1,734**
Deferred Tax Liability	**541**	**370**	**448**	**535**
Equity Share Capital	63	64	64	64
Face Value per share (Rs)	11	12	12	12
Reserves & Surplus*	4,073	6,408	6,885	7,503
Minority Interest	80	993	1,069	1,163
Net Worth	**4,533**	**7,002**	**7,873**	**8,492**
Total Liabilities	**9,206**	**11,191**	**11,380**	**11,923**

*excluding revaluation reserves

Source: Company data, I-Sec research

Table 14: Quarterly trend

(Rs bn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	912	1,162	1,240	1,549
% growth (YoY)	(44)	(24)	(21)	11
EBITDA	169	189	216	234
Margin (%)	18.5	16.3	17.4	15.1
Other income	44	42	45	32
Net profit	83	96	132	124

Source: Company data, I-Sec research

Table 15: Cashflow statement

(Rs bn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow before working capital changes	473	627	1,034	1,256
Working Capital Changes	1,241	-596	-780	174
Operating Cashflow	1,715	31	254	1,430
Capital Commitments	-815	-520	-526	-661
Free Cashflow	**900**	**-489**	**-272**	**769**
Cashflow from Investing Activities	-1,985	-1,797	89	-861
Issue of Share Capital (inc. Buyback impact)	4	133	395	0
Inc (Dec) in Borrowings	242	-1,355	-356	-231
Dividend paid	-44	-44	-51	-66
Cashflow from Financing Activities	203	-1,266	-12	-297
Chg. in Cash & Bank balances	**-68**	**-3,033**	**332**	**272**

Source: Company data, I-Sec research

Table 16: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	73.9	67.5	84.2	106.2
Diluted Recurring EPS	73.9	67.5	84.2	106.2
Recurring Cash EPS	102.4	108.7	137.4	167.7
Dividend per share (DPS)	6.5	7.0	9.0	9.0
Book Value per share (BV)	765.0	1,086.4	1,221.6	1,317.5
Growth Ratios (%)				
Operating Income	5%	-21%	59%	13%
EBITDA	6%	-9%	41%	15%
Recurring Net Income	12%	-1%	25%	26%
Diluted Recurring EPS	12%	-9%	25%	26%
Diluted Recurring CEPS	10%	6%	26%	22%
Valuation Ratios (x)				
P/E	27.0	29.6	23.7	18.8
P/CEPS	19.5	18.3	14.5	11.9
P/BV	2.6	1.8	1.6	1.5
EV / EBITDA	17.5	19.2	13.0	10.9
EV / Operating Income	19.5	22.0	15.8	13.1
EV / Operating FCF	9.1	503.0	58.3	10.0
Operating Ratios				
Other Income / PBT (%)	25%	29%	17%	17%
Effective Tax Rate (%)	26%	3%	23%	22%
NWC / Total Assets (%)	-10%	-4%	2%	2%
D/E Ratio (%)	89%	40%	25%	20%
Return/Profitability Ratios (%)				
Recurring Net Income Margins	7%	9%	7%	8%
RoCE	7%	6%	6%	6%
RoNW	10%	8%	7%	8%
Dividend Payout Ratio	10%	12%	12%	10%
Dividend Yield	0.3%	0.4%	0.5%	0.5%
EBITDA Margins	15%	17%	15%	15%

Source: Company data, I-Sec research

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ANALYST CERTIFICATION
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