



Reliance Industries

BSE SENSEX 28,423 S&P CNX 8,775

CMP: INR1,029 TP: INR1,129(+10%) Neutral



Stock Info

Bloomberg	RIL IN
Equity Shares (m)	3,234.0
M.Cap.(INRb)/(USD\$b)	3,327.8 / 49.7
52-Week Range (INR)	1090 / 825
1, 6, 12 Rel. Per (%)	0/-13/12
Avg Val, INRm	3785
Free float (%)	54.9

Financials & Valuations (INR b)

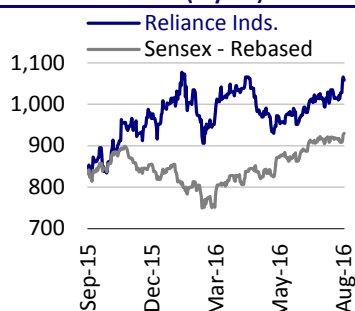
Y/E Mar	2016	2017E	2018E
Net Sales	2,332	2,706	3,118
EBITDA	401.4	475.5	567.0
PAT	274.2	313.3	356.4
EPS (INR)	93.6	105.6	120.1
Gr. (%)	20.7	14.3	13.7
BV/Sh (INR)	818.4	898.5	1,001.1
RoE (%)	12.0	12.4	12.6
RoCE (%)	11.1	11.9	12.6
P/E (x)	12.2	10.8	9.5
P/BV (x)	1.3	1.1	1.0
EV/EBITDA(x)	8.5	6.9	6.0

Shareholding pattern (%)

As on	Mar-16	Dec-15	Mar-15
Promoter	45.2	45.2	45.2
DII	12.8	13.2	12.6
FII	22.5	21.9	22.0
Others	19.5	19.7	20.2

FII Includes depository receipts

Stock Performance (1-year)



Jio tariffs + mass trial offerings announced

Targeting 100m subscribers soon; early trends to dictate long-term outlook

- Reliance Industries' (RIL) CMD Mukesh Ambani announced the much-awaited details on its telecom venture Jio in terms of tariffs and likely commercial launch dates at its AGM.
- RIL will offer Jio services on complementary basis from September 5 till December 31, 2016, implying commercial launch in January 2017.
- On the commissioning of on-track core projects, petcoke gasification will complete in 1HCY17 versus earlier expectation of 2HFY17.
- RIL's strategy to move away from cyclical commodity earnings to annuity-like businesses will play out in coming years as it tries to profitably scale its telecom and retail businesses. RIL's FY17 earnings will be function of GRM trend, while telecom launch and its success will drive the stock price movement.

Telecom tariffs announced; core projects largely on track

- **Mass-scale trial offering from September 5:** RIL will launch the Jio Welcome Offer on September 5, 2016, wherein users will have access to unlimited LTE data and national voice, video and messaging services free of cost till December 31, 2016. LYF brand handsets will be available from INR2,999. Plans will begin from INR19/day and will have tariff of INR25-50/GB, depending on usage. RIL will charge only for data usage and not voice.
- **Targeting 100m subscribers soon:** RIL targets to reach 100m customers at fastest pace.
- **Core projects largely on track:** RIL's USD18.5b core projects after some delays (not alarming against the backdrop of scale/complexity) are set to commission fully by 1HCY17.

Our (telecom analyst) view on Jio ([Link to detailed note on telecom](#))

We believe that RJio's welcome offer of free data and voice over the next four months should lead to a significant shift in traffic away from incumbents (driven by 2nd SIM phenomenon). However, commercial offerings post Dec-16 could potentially alter the competitive dynamics in the telecom industry.

- We expect RJio's subscriber base to reach 75m by FY19E (75% of management's 100m target with ARPU of INR 244). With these workings, we expect RJio to break even in the third year at EBITDA level.

Valuations and view

- RIL's recent capital allocation had been skewed toward non-core businesses to ring-fence its earnings from cyclical businesses. Now with non-core forming 40% of CE, successful consummation of core capex and telecom venture is critical.
- On FY18E basis, the stock trades at 9.3x adj. SA EPS of INR120 and EV/EBITDA of 5.9x. **Neutral.**

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Key announcements at AGM

- India will be among top 10 post RJio launch in mobile internet accessibility v/s 155 now.
- RJio will cover 18,000 cities and two lakh villages (90% of India's population) by March 2017.
- 4G LTE devices now available at INR4,000. Will also be available at INR2,999. RJio has launched Jio Fi (personal router) for INR1,999.
- RJio customers will get complimentary (content) subscription worth INR15,000 for one year.
- RJio will be launched through Aadhar-based sign up. Customers can get connection in 15 minutes.

Tariff plans

- Customers should pay only for one service: voice or data. RJio customers will get voice services for free.
- RJio data pricing to be 1/10th of current pricing in market. Free data at night.
- To roll out wifi hot spots across India. 25% more data to students.

JIO welcome offer

- Free RJio service from September 5 to December 31, 2016.
- Capacity to take 1m customers per day.
- Fiber to Home in select cities: Speed up to 1GB per second.
- Average age of RJio employee is 30 years.
- Target to reach 100m subscribers at the earliest (wants to make world record).
- Onus on incumbents to provide access to RJio customers. Asks to provide interconnect and MNP ports without hurdles.

Exhibit 1: New projects to drive RIL's next growth phase; capex estimate increased marginally

Project	Capex (USD b)	Feedstock's	Key products
Refinery off-gases cracker (ROGC)	~6	Refinery off-gases (From CDU, FCC etc.)	Petrochemicals (mainly ethylene chain)
Integrated gasification combined cycle (IGCC)	~6	Petcoke (From delayed coker unit)	Petrochemicals, Power, Steam, Chemicals
Polyester expansion	~5		PX, PFY, PSF, PET
Ethane sourcing	1.5	Replacing domestic gas and high cost propane/naphtha	
Total	~18.5		

Source: Company, MOSL

Exhibit 2: Status update of ongoing core business capex plans

In KTPA	Current Capacity	Planned Expansion	Total	Status / Likely production start
Refinery Off-gas Cracker				
Ethylene	1,883	1,365	3,248	3QFY17
Propylene	759	154	913	3QFY17
LDPE	190	400	590	3QFY17
LLDPE	928	550	1,478	3QFY17
Benzene	419	453	872	Along with PX line
PP	2,100	135	2,235	3QFY17
Polyesters				
PFY	670	395	1,065	Commissioned
PTY	153	140	293	Commissioned
PSF	692	346	1,038	
PET	290	648	938	Phase 1 commissioned; Phase 2 in Dec 2015
Polyester Intermediates				
Paraxylene	1,830	2,470	4,300	Full commissioning by 2Q/3QFY17 (v/s initial planned expansion of 1.9MMT)
PTA	2,050	2,296	4,346	Commissioned
MEG	733	730	1,463	4QFY16, in interim could purchase feedstock
Rubber Division				
PBR	74	40	114	Commissioned in 4QFY14
SBR		150	150	July-Sept 2014 (2QFY15)
Butyl Rubber		100	100	Commissioning by 2016
HPIB		105	105	

Source: Company, MOSL

Financials and Valuations

RIL - Income Statement							(INR Billion)	
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	2,482	3,299	3,603	3,901	3,291	2,332	2,706	3,118
RM Cons & Purchases	1,947	2,763	3,066	3,298	2,631	1,570	1,990	2,292
Change in Stocks	-32	-9	-33	4	19	42	-17	0
Employee Costs	26	29	34	34	37	41	43	46
Other Expenditure	160	180	228	256	287	277	215	214
EBITDA	381	336	308	309	316	401	475	567
% of Net Sales	15.4	10.2	8.5	7.9	9.6	17.2	17.6	18.2
Depreciation	136	114	95	88	85	96	118	150
Interest	23	27	30	32	24	25	34	43
Other Income	31	62	80	89	87	76	87	93
PBT	252	258	263	278	295	357	411	467
Tax	50	57	53	58	67	83	97	111
Rate* (%)	19.6	22.2	20.1	21.0	22.9	23.2	23.7	23.7
PAT	203	200	210	220	227	274	313	356
Adj. PAT	203	200	210	220	227	274	313	356
Change (%)	24.9	-1.2	4.8	4.7	3.3	20.7	14.3	13.7
Key Operating Metrics								
GRM (USD/bbl)	8.4	8.6	9.2	8.5	8.8	10.8	11.0	11.6
KG-D6 production (mmscmd)	56.2	42.6	26.5	13.8	12.2	10.8	8.6	8.5

Balance Sheet							(INR Billion)	
Y/E March	2011	2012	2013	2014	2015	2016E	2017E	2018E
Share Cap. (incl sh. Susp.)	33	33	32	32	32	32	33	33
Reserves	1483	1628	1768	1,939	2,129	2,366	2,633	2,937
Net Worth	1,515	1,661	1,800	1,971	2,162	2,398	2,666	2,970
Total Loans	674	684	724	855	976	1,070	1,070	1,070
Deferred Tax	116	121	122	122	127	132	140	149
Capital Employed	2,305	2,466	2,646	2,948	3,265	3,600	3,876	4,189
Gross Fixed Assets	2213	2055	2132	2,226	2,361	2,634	3,667	3,907
Less: Depreciation	785	918	1034	1,132	1,215	1,311	1,429	1,579
Net Fixed Assets	1,427	1,137	1,097	1,094	1,146	1,323	2,238	2,328
Capital WIP	128	78	191	417	758	1,017	239	108
Investments	377	540	525	895	1,126	1,392	1,423	1,455
Curr. Assets, L & Adv.								
Inventory	298	360	427	429	366	280	315	352
Debtors	174	184	119	107	47	35	37	55
Cash & Bank Balance	271	396	495	332	116	160	325	295
Loans&Adv.and Other CA	171	257	330	402	421	287	295	303
Current Liab. & Prov.								
Liabilities	497	442	495	686	651	820	916	618
Provisions	46	43	43	42	63	74	81	89
Net Current Assets	373	712	832	542	236	(133)	(25)	298
Application of Funds	2,305	2,466	2,646	2,948	3,265	3,600	3,876	4,189

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Basic (INR)								
EPS	62.0	61.3	65.0	68.0	70.2	84.6	95.7	108.8
Adj. EPS (ex Treasury)	68.4	67.7	71.9	75.2	77.6	93.6	105.6	120.1
Cash EPS	103.5	96.1	94.4	95.2	96.4	114.2	131.7	154.7
Adj. Book Value	511.2	560.7	616.5	674.2	738.5	818.4	898.5	1,001.1
DPS	8.0	8.5	9.0	9.5	10.0	12.1	13.6	15.5
Payout (incl. Div. Tax.)	13.7	14.7	14.6	16.4	16.7	16.7	16.6	16.7
Valuation (x)								
P/E					14.7	12.2	10.8	9.5
Adj. P/E					13.3	11.0	9.7	8.6
Cash P/E					10.7	9.0	7.8	6.7
EV / EBITDA					11.3	8.5	6.9	6.0
EV / Sales					1.1	1.5	1.2	1.1
Adj. P/B					1.4	1.3	1.1	1.0
Dividend Yield (%)					1.0	1.2	1.3	1.5
Profitability Ratios (%)								
RoE	14.8	13.0	12.3	11.7	11.0	12.0	12.4	12.6
RoCE	12.9	12.1	11.6	11.1	10.2	11.1	11.9	12.6
RoIC	12.5	11.6	11.8	12.8	13.9	20.4	18.7	15.1
Turnover Ratios								
Debtors (No. of Days)	21	20	15	11	8	6	5	5
Fixed Asset Turnover (x)	1.1	1.5	1.7	1.8	1.4	0.9	0.9	0.8
Leverage Ratio								
Net Debt / Equity (x)	0.2	0.0	-0.1	0.0	0.1	0.0	0.0	0.0

Cash Flow Statement

(INR Billion)

Y/E March	2011	2012	2013E	2014	2015	2016E	2017E	2018E
OP/(Loss) before Tax	252	258	263	278	295	357	411	467
Depreciation (excl. revaluation)	136	114	95	88	85	96	118	150
Interest expense	23	27	30	32	24	25	34	43
Direct Taxes Paid	-42	-48	-47	-61	-61	-78	-89	-102
(Inc)/Dec in Wkg. Capital	1	-28	58	145	83	413	57	-353
Interest/other income	-26	-44	-62	-65	-54	-54	-66	-69
Other op activities	-11	-8	-7	4	-19	0	0	0
CF from Op. Activity	333	270	330	422	353	758	465	137
(Inc)/Dec in FA & CWIP	-121	-80	-159	-325	-427	-533	-255	-109
Free Cash Flow	212	190	171	97	-74	226	210	28
(Pur)/Sale of Investments	-141	62	22	-120	-84	-266	-31	-32
Interest/other income	23	19	65	68	66	54	66	69
Other In activities	35	-31	-75	-264	-115	0	0	0
CF from Inv. Activity	-203	-30	-148	-640	-560	-745	-221	-72
Change in Equity	2	-2	-31	2	2	0	0	0
Inc / (Dec) in Debt	30	-85	-23	84	21	69	-34	-43
Dividends Paid	-24	-28	-29	-31	-33	-38	-46	-52
CF from Fin. Activity	7	-115	-83	55	-10	31	-79	-95
Inc / (Dec) in Cash	137	125	99	-163	-217	44	165	-30
Add: Opening Balance	135	271	396	495	332	115	160	325
Add: On Amalgamation								
Closing Balance	271	396	495	332	115	160	325	295

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Reliance Industries

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