

October 21, 2016

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Rating	Accumulate
Price	Rs1,089
Target Price	Rs1,102
Implied Upside	1.2%
Sensex	28,130
Nifty	8,699

(Prices as on October 20, 2016)

Trading data

Market Cap. (Rs bn)	3,526.7
Shares o/s (m)	3,240.0
3M Avg. Daily value (Rs m)	4276

Major shareholders

Promoters	46.49%
Foreign	8.24%
Domestic Inst.	25.30%
Public & Other	19.97%

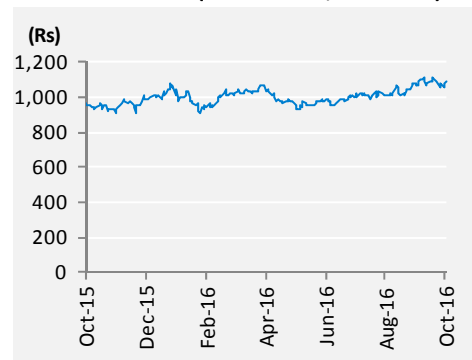
Stock Performance

(%)	1M	6M	12M
Absolute	1.3	4.8	13.9
Relative	2.7	(4.0)	10.9

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	92.7	87.7	5.7
2018	103.1	98.0	5.3

Price Performance (RIC: RELI.BO, BB: RIL IN)



Source: Bloomberg

■ **Better-than-expected refining margins drive earnings outperformance:** RIL reported Q2FY17 results higher than estimates; Standalone EBITDA of Rs105.5bn (PLe: Rs99.5bn), PAT of Rs77.0bn (PLe: Rs70.3bn). Earnings outperformance was due to higher-than-expected refining margins of US\$10.1/bbl (PLe: US\$9.5/bbl) despite Singapore margins being flat sequentially at US\$5/bbl. Refining outperformance was led by **1) better gasoil spreads and 2) cost optimisation.** Lower-than-expected interest (Rs6.3bn; -31%QoQ) charges from lower exchange losses also supported earnings.

■ **Petrochemical earnings recover, E&P disappoints:** For Q2FY17, petrochemicals EBIT were at Rs34.6bn (+37.5%YoY) supported by demand strength in polymers (+10%YoY) and polyester (+14%YoY) along with healthy deltas. E&P EBIT for Q2FY17 was at Rs240m (-57%YoY) due to lower volumes; KGD6 volume was at 7.7mmscmd (Q2FY16: 11.6mmscmd). To tackle natural decline, RIL has initiated two side-track projects to support MA field volumes.

■ **Telecom capex at Rs1,590bn:** RIL has spent Rs1,450bn towards *RJio* till Q2FY17. Further the company has spent Rs140bn towards spectrum acquisition recently and expects capex intensity to come off, going forward. *RJio* has 16m subscribers with average data usage of ~30GB p.m/user. RIL's total spectrum footprint has increased to 1108 MHz (UL+DL) with an average life of over 16 years post recent spectrum acquisition.

■ **Project commissioning/stabilisation key variable:** RIL project has seen some delays and the Paraxylene project will be commissioned in Q3FY17, the offgas cracker in Q1FY18 and the petcoke gasification project's full ramp-up is expected by Q4FY18 (first phase to start by H2CY17). Increase our earnings by 6%/1% for lower finance and depreciation charges; Reiterate "**Accumulate**" with a revised PT of Rs1,102 (Rs1,094).

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	3,287,720	2,331,580	2,926,569	3,085,318
Growth (%)	(15.7)	(29.1)	25.5	5.4
EBITDA (Rs m)	316,710	401,390	450,093	538,321
PAT (Rs m)	227,190	274,170	300,344	334,199
EPS (Rs)	70.2	84.6	92.7	103.1
Growth (%)	3.2	20.5	9.5	11.3
Net DPS (Rs)	9.1	9.6	15.0	16.0

Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	9.6	17.2	15.4	17.4
RoE (%)	11.0	12.0	12.2	13.0
RoCE (%)	8.0	8.6	9.1	9.8
EV / sales (x)	1.3	1.9	1.5	1.5
EV / EBITDA (x)	13.9	11.3	10.0	8.3
PE (x)	15.5	12.9	11.7	10.6
P / BV (x)	1.6	1.5	1.4	1.3
Net dividend yield (%)	0.8	0.9	1.4	1.5

Source: Company Data; PL Research

Key Analyst Meet Takeaways:

- RJio:** RIL currently has 16m users on board and average data usage is 30GB p.m/user. For Q2FY17, telecom capex was at Rs100bn and the company expects the capex intensity to come off in the coming quarters. Total capex on RJio stands at Rs1,590bn till Q2FY17 end which includes Rs140bn towards recent spectrum acquisition charges. Of the total capex, equity contribution stands at Rs450bn (to be increased to Rs600bn), debt at Rs460bn and the balance funded by supplier's credit.
- Retail:** RIL's retail business reported EBITDA at Rs2.6bn in Q2FY17. This includes fuel retail earnings from 1022 outlets currently on. On fuel retailing, RIL has garnered 4.5% in the bulk diesel space and 3.3% in the retail diesel space.
- New projects:** RIL project has seen some delays and the Paraxylene project will be commissioned in Q3FY17, the offgas cracker in Q1FY18 and the petcoke gasification project full ramp-up is expected by Q4FY18 (first phase to start by H2CY17). The company has already spent US\$17bn towards capex and plans to spend US\$1.5bn by FY17 end.

Exhibit 1: Q2FY17 Result Overview (Rs m)

Year to 31st March (Rs mn)	Q2FY17	Q2FY16	YoY (%)	Q1FY17	H1FY17	H1FY16	YoY (%)
Net sales	643,440	645,150	(0.3)	534,960	1,178,400	1,303,320	(9.6)
Inc/dec in stock	(2,920)	19,570	NA	(17,340)	(20,260)	540	NA
Raw materials - external purchases	414,500	411,100	0.8	366,030	780,530	913,860	(14.6)
Staff cost	10,160	9,400	8.1	12,510	22,670	21,570	5.1
Other expenditure	116,150	109,230	6.3	65,590	181,740	179,760	1.1
Total	537,890	549,300	(2.1)	426,790	964,680	1,115,730	(13.5)
Operating profit	105,550	95,850	10.1	108,170	213,720	187,590	13.9
Other income	22,800	16,830	35.5	20,330	43,130	33,990	26.9
Interest	6,330	7,230	(12.4)	9,240	15,570	13,400	16.2
Depreciation	20,290	20,850	(2.7)	19,500	39,790	40,950	(2.8)
PBT	101,730	84,600	20.2	99,760	201,490	167,230	20.5
Tax	24,690	19,260	28.2	24,280	48,970	38,200	28.2
<i>Tax rate (%)</i>	<i>24.3</i>	<i>22.8</i>		<i>24.3</i>	<i>24.3</i>	<i>22.8</i>	
Net profit	77,040	65,340	17.9	75,480	152,520	129,030	18.2

Source: Company Data, PL Research

Exhibit 2: Refining margins and volume details

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Crude throughput (MTPA)	16.6	17.1	18	17.8	16.8	18
Reliance GRMs (\$/bbl)]	10.4	10.6	11.5	10.8	11.5	10.1
Singapore GRMs (\$/bbl)	8.02	6.3	8	7.8	5	5.1
Difference (\$/bbl)	2.4	4.3	3.5	3.0	6.5	5.0
KGD6 Gas- mmscmd	11.6	11.6	10.7	9.7	8.7	7.7

Source: Company Data, PL Research

Exhibit 3: RIL quarterly EBIT trend

(Rs m)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Petrochem	24,490	25,200	25,920	27,200	29,010	34,640
Refining	51,230	54,140	63,330	63,620	65,810	59,010
Oil & Gas	2,340	560	390	-2,420	480	240
Others	630	560	880	880	990	900
Total	78,690	80,460	90,520	89,280	96,290	94,790

Source: Company Data, PL Research

Exhibit 4: RIL earnings change

(Rs bn)	FY16	FY17E			FY18E		
		New	Old	% change	New	Old	% change
Sales	2,332	2,927	2,927	-	3,085	3,085	-
EBITDA	401	450	450	-	538	538	-
PAT	274	300	282	6.0	334	331	1.1

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	3,287,720	2,331,580	2,926,569	3,085,318
Raw Material Expenses	2,843,930	1,780,500	2,305,333	2,355,283
Gross Profit	443,790	551,080	621,236	730,035
Employee Cost	—	—	—	—
Other Expenses	127,080	149,690	171,144	191,714
EBITDA	316,710	401,390	450,093	538,321
Depr. & Amortization	84,880	95,660	88,703	117,110
Net Interest	23,670	24,540	35,953	43,997
Other Income	86,520	75,820	67,548	64,087
Profit before Tax	294,680	357,010	392,984	441,302
Total Tax	67,490	82,840	92,640	107,103
Profit after Tax	227,190	274,170	300,344	334,199
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	227,190	274,170	300,344	334,199
Avg. Shares O/S (m)	3,236.0	3,240.0	3,240.0	3,240.0
EPS (Rs.)	70.2	84.6	92.7	103.1

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	493,701	768,453	742,699	509,893
C/F from Investing	(475,340)	(572,960)	(852,860)	203,300
C/F from Financing	(311,333)	298,788	(235,570)	(473,269)
Inc. / Dec. in Cash	(292,972)	494,281	(345,731)	239,924
Opening Cash	366,240	115,710	68,920	75,812
Closing Cash	115,710	68,920	75,812	83,393
FCFF	322,950	483,770	(545,277)	215,225
FCFE	408,239	573,631	(560,277)	200,225

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	(15.7)	(29.1)	25.5	5.4
EBITDA (%)	2.9	26.7	12.1	19.6
PAT (%)	3.3	20.7	9.5	11.3
EPS (%)	3.2	20.5	9.5	11.3
Profitability				
EBITDA Margin (%)	9.6	17.2	15.4	17.4
PAT Margin (%)	6.9	11.8	10.3	10.8
RoCE (%)	8.0	8.6	9.1	9.8
RoE (%)	11.0	12.0	12.2	13.0
Balance Sheet				
Net Debt : Equity	0.4	0.4	0.4	0.4
Net Wrkng Cap. (days)	(5)	32	(24)	(24)
Valuation				
PER (x)	15.5	12.9	11.7	10.6
P / B (x)	1.6	1.5	1.4	1.3
EV / EBITDA (x)	13.9	11.3	10.0	8.3
EV / Sales (x)	1.3	1.9	1.5	1.5
Earnings Quality				
Eff. Tax Rate	22.9	23.2	23.6	24.3
Other Inc / PBT	29.4	21.2	17.2	14.5
Eff. Depr. Rate (%)	3.6	3.6	2.3	2.9
FCFE / PAT	179.7	209.2	(186.5)	59.9

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	2,161,760	2,401,840	2,507,652	2,638,046
Total Debt	984,969	1,074,830	1,059,830	1,044,830
Other Liabilities	180,551	183,814	210,755	223,196
Total Liabilities	3,327,280	3,660,484	3,778,237	3,906,073
Net Fixed Assets	1,903,160	2,382,890	3,147,047	2,826,637
Goodwill	—	—	—	—
Investments	1,485,950	1,761,854	1,405,884	1,857,165
Net Current Assets	(61,830)	(484,260)	(774,693)	(777,729)
<i>Cash & Equivalents</i>	<i>115,710</i>	<i>68,920</i>	<i>75,812</i>	<i>83,393</i>
<i>Other Current Assets</i>	<i>473,030</i>	<i>392,700</i>	<i>364,137</i>	<i>370,589</i>
<i>Current Liabilities</i>	<i>650,570</i>	<i>945,880</i>	<i>1,214,642</i>	<i>1,231,711</i>
Other Assets	—	—	—	—
Total Assets	3,327,280	3,660,484	3,778,237	3,906,073

Quarterly Financials (Rs m)

Y/e March	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Revenue	565,670	499,570	534,960	643,440
EBITDA	102,720	103,410	108,170	105,550
<i>% of revenue</i>	<i>18.2</i>	<i>20.7</i>	<i>20.2</i>	<i>16.4</i>
Depr. & Amortization	24,050	23,270	19,500	20,290
Net Interest	6,090	5,860	9,240	6,330
Other Income	22,890	21,410	20,330	22,800
Profit before Tax	95,470	95,690	99,760	101,730
Total Tax	23,290	23,420	24,280	24,690
Profit after Tax	72,180	72,270	75,480	77,040
Adj. PAT	72,180	72,270	75,480	77,040

Key Operating Metrics

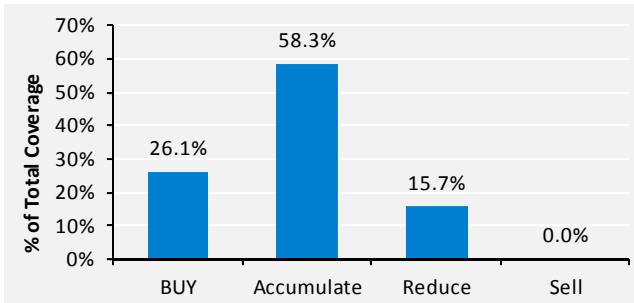
Y/e March	2015	2016	2017E	2018E
Brent (US\$/bbl)	85.6	47.4	50.0	50.0
GRM(US\$/bbl)	8.6	10.8	10.5	11.0
Refining thrupt (MTPA)	67.9	69.6	69.0	69.0
US\$/Rs	61.1	65.4	66.5	67.0

Source: Company Data, PL Research.

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