

January 17, 2017

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Rating	Accumulate
Price	Rs1,077
Target Price	Rs1,094
Implied Upside	1.6%
Sensex	27,288
Nifty	8,413

(Prices as on January 16, 2017)

Trading data

Market Cap. (Rs bn)	3,489.5
Shares o/s (m)	3,240.0
3M Avg. Daily value (Rs m)	3285.7

Major shareholders

Promoters	46.61%
Foreign	12.86%
Domestic Inst.	21.25%
Public & Other	19.28%

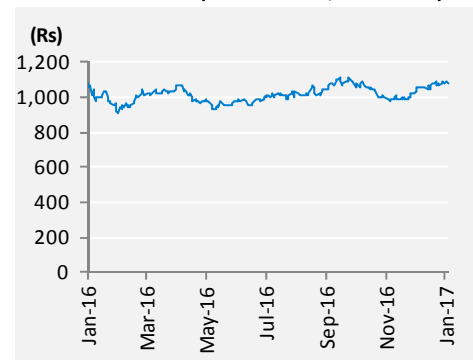
Stock Performance

(%)	1M	6M	12M
Absolute	1.8	6.4	0.4
Relative	(1.2)	8.3	(11.2)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	106.1	95.5	11.1
2019	115.2	91.1	26.5

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



Source: Bloomberg

- **In-line performance:** RIL reported highest quarterly profits in Q3FY17. Results were in-line with estimates; Standalone EBITDA of Rs106bn (PLe: Rs108.8bn), PAT of Rs80.2bn (PLe: Rs79.3bn). Healthy performance was supported by healthy refining and petrochemicals division along with higher other income from investment sale.
- For Q3, GRMs were strong at US\$10.8/bbl (PLe: US\$11.5/bbl) despite FCCU shutdown which impacted gasoline and propylene volumes. Petrochemicals profitability was also robust despite maintenance shutdown and demand hit from demonetisation; company successfully managed to export volumes to circumvent demand drag in domestic markets.
- **Petrochemical earnings resilient, E&P disappoints:** For Q3FY17, petrochemicals EBIT were at Rs33.6bn (+30%YoY) supported by demand strength in polymers (+5%YoY) and polyester (+5%YoY) along with stable deltas. E&P EBIT for Q3FY17 was at Rs(1.25bn) due to lower volumes; KGD6 volume was at 7.5mmscmd (Q3FY16: 10.7mmscmd). To tackle natural decline, RIL has initiated two side-track projects to support MA field volumes.
- **Telecom capex at Rs1,710bn:** RIL has spent Rs1,710bn towards *RJio* till Q3FY17, including Rs140bn towards spectrum acquisition. *RJio* has 72m subscribers with incremental addition of 0.6mn subscribers per day. Additionally, RIL plans to spend Rs300bn through FY18 to enhance network coverage to over 90% from current 70%.
- **Project commissioning/stabilisation key variable:** RIL project has seen some delays and other 2 phases of Paraxylene project will be commissioned in Q4FY17, the offgas cracker in Q1FY18 and the petcoke gasification project's full mechanical completion is expected by Q1FY18 end. We maintain our earnings; Reiterate "**Accumulate**" with a PT of Rs1,094.

Key financials (Y/e March)

	2016	2017E	2018E	2019E
Revenues (Rs m)	2,331,580	2,926,569	3,197,036	3,352,420
Growth (%)	(29.1)	25.5	9.2	4.9
EBITDA (Rs m)	401,390	450,093	528,805	564,135
PAT (Rs m)	274,170	309,892	343,854	373,330
EPS (Rs)	84.6	95.6	106.1	115.2
Growth (%)	20.5	13.0	11.0	8.6
Net DPS (Rs)	9.6	15.0	16.0	17.0

Profitability & Valuation

	2016	2017E	2018E	2019E
EBITDA margin (%)	17.2	15.4	16.5	16.8
RoE (%)	12.0	12.6	13.3	13.6
RoCE (%)	8.6	9.3	10.1	10.6
EV / sales (x)	1.9	1.5	1.4	1.3
EV / EBITDA (x)	11.2	9.9	8.4	7.8
PE (x)	12.7	11.3	10.1	9.3
P / BV (x)	1.5	1.4	1.3	1.2
Net dividend yield (%)	0.9	1.4	1.5	1.6

Source: Company Data; PL Research

Key Analyst Meet Takeaways:

- RJio:** RIL currently has 72m users on board and the run rate remains strong at 0.6mn subscriber per day. For Q3FY17, telecom capex was at Rs270bn and included Rs140bn towards spectrum payments. Total capex on RJio stands at Rs1,710bn till Q3FY17 end. Of the total capex, equity contribution stands at Rs600bn, debt at Rs500bn and the balance funded by supplier's credit.
- Retail:** RIL's retail business reported EBITDA at Rs3.3bn in Q3FY17. This includes fuel retail earnings from 1,151 outlets currently on. On fuel retailing, RIL has garnered 4.9% in the bulk diesel space and 8% in the ATF space.
- New projects:** RIL project has seen some delays and the other two phases of the Paraxylene project will be commissioned in Q4FY17, while the offgas cracker will be commissioned in Q1FY18. The mechanical completion of the petcoke gasification project is expected by Q1FY18 end. The company has already spent US\$17.5bn towards capex and plans to spend US\$1bn by FY17 end.

Exhibit 1: Q3FY17 Result Overview (Rs m)

Y/e March	Q3FY17	Q3FY16	YoY gr. (%)	Q2FY17	9MFY17	9MFY16	YoY gr. (%)
Net sales	666,060	611,250	9.0	643,440	1,844,460	1,914,570	(3.7)
Inc/dec in stock	(22,530)	14,820	(252.0)	(2,920)	(42,790)	15,360	(378.6)
Raw materials - external purchases	443,180	371,490	19.3	414,500	1,223,710	1,285,350	(4.8)
Staff cost	9,490	10,910	(13.0)	10,160	32,160	32,480	(1.0)
Other expenditure	129,880	111,550	16.4	116,150	311,620	291,310	7.0
Total	560,020	508,770	10.1	537,890	1,524,700	1,624,500	(6.1)
Operating profit	106,040	102,480	3.5	105,550	319,760	290,070	10.2
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Other income	30,250	22,810	32.6	22,800	73,380	56,800	29.2
Interest	9,310	6,360	46.4	6,330	24,880	19,760	25.9
Depreciation	20,770	21,680	(4.2)	20,290	60,560	62,630	(3.3)
PBT	106,210	97,250	9.2	101,730	307,700	264,480	16.3
Tax	25,990	24,280	7.0	24,690	74,960	62,480	20.0
<i>Tax rate (%)</i>	<i>24.5</i>	<i>25.0</i>		<i>24.3</i>	<i>24.4</i>	<i>23.6</i>	
Net profit	80,220	72,970	9.9	77,040	232,740	202,000	15.2

Source: Company Data, PL Research

Exhibit 2: RIL quarterly volume and margin details

US\$/bbl	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Crude throughput (MTPA)	16.6	17.1	18	17.8	16.8	18	17.8
Reliance GRMs (\$/bbl)	10.4	10.6	11.5	10.8	11.5	10.1	10.8
Singapore GRMs (\$/bbl)	8.02	6.3	8	7.8	5	5.1	6.7
Difference (\$/bbl)	2.4	4.3	3.5	3.0	6.5	5.0	4.1
KGD6 Gas- mmscmd	11.6	11.6	10.7	9.7	8.7	7.7	7.5
MA Oil- tonnes	59,612	52,838	56,071	44,709	37,935	35,225	35,225

Source: Company Data, PL Research

Exhibit 3: RIL PBIT trend

(Rs m)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Petrochem	24,490	25,200	25,840	27,200	29,010	34,640	33,590
Refining	51,230	54,140	63,170	63,620	65,810	59,010	61,270
Oil & Gas	2,340	560	2,440	-2,420	480	240	-1,250
Others	630	560	880	880	990	900	1,140
Total	78,690	80,460	92,330	89,280	96,290	94,790	94,750

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017E	2018E	2019E
Net Revenue	2,331,580	2,926,569	3,197,036	3,352,420
Raw Material Expenses	1,780,500	2,305,333	2,476,727	2,574,103
Gross Profit	551,080	621,236	720,308	778,318
Employee Cost	—	—	—	—
Other Expenses	149,690	171,144	191,504	214,183
EBITDA	401,390	450,093	528,805	564,135
Depr. & Amortization	95,660	87,713	115,018	122,411
Net Interest	24,540	35,953	46,102	50,763
Other Income	75,820	78,702	85,500	100,839
Profit before Tax	357,010	405,129	453,185	491,800
Total Tax	82,840	95,236	109,332	118,470
Profit after Tax	274,170	309,892	343,854	373,330
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	274,170	309,892	343,854	373,330
Avg. Shares O/S (m)	3,240.0	3,240.0	3,240.0	3,240.0
EPS (Rs.)	84.6	95.6	106.1	115.2

Cash Flow Abstract (Rs m)

Y/e March	2016	2017E	2018E	2019E
C/F from Operations	768,453	751,257	535,326	563,835
C/F from Investing	(572,960)	(732,860)	137,200	(111,861)
C/F from Financing	298,788	(235,570)	(475,374)	(483,728)
Inc. / Dec. in Cash	494,281	(217,173)	197,152	(31,754)
Opening Cash	115,710	68,920	75,812	83,393
Closing Cash	68,920	75,812	83,393	91,733
FCFF	483,770	(476,719)	237,954	217,212
FCFE	573,631	(491,719)	222,954	202,212

Key Financial Metrics

Y/e March	2016	2017E	2018E	2019E
Growth				
Revenue (%)	(29.1)	25.5	9.2	4.9
EBITDA (%)	26.7	12.1	17.5	6.7
PAT (%)	20.7	13.0	11.0	8.6
EPS (%)	20.5	13.0	11.0	8.6
Profitability				
EBITDA Margin (%)	17.2	15.4	16.5	16.8
PAT Margin (%)	11.8	10.6	10.8	11.1
RoCE (%)	8.6	9.3	10.1	10.6
RoE (%)	12.0	12.6	13.3	13.6
Balance Sheet				
Net Debt : Equity	0.4	0.4	0.4	0.3
Net Wrkng Cap. (days)	32	(24)	(25)	(25)
Valuation				
PER (x)	12.7	11.3	10.1	9.3
P / B (x)	1.5	1.4	1.3	1.2
EV / EBITDA (x)	11.2	9.9	8.4	7.8
EV / Sales (x)	1.9	1.5	1.4	1.3
Earnings Quality				
Eff. Tax Rate	23.2	23.5	24.1	24.1
Other Inc / PBT	21.2	19.4	18.9	20.5
Eff. Depr. Rate (%)	3.6	2.3	2.8	2.8
FCFE / PAT	209.2	(158.7)	64.8	54.2

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017E	2018E	2019E
Shareholder's Funds	2,401,840	2,517,246	2,659,015	2,824,974
Total Debt	1,074,830	1,059,830	1,044,830	1,029,830
Other Liabilities	183,814	211,241	224,260	240,347
Total Liabilities	3,660,484	3,788,317	3,928,105	4,095,151
Net Fixed Assets	2,382,890	3,028,037	2,775,818	2,699,768
Goodwill	—	—	—	—
Investments	1,761,854	1,534,974	1,945,779	2,128,367
Net Current Assets	(484,260)	(774,693)	(793,494)	(798,487)
<i>Cash & Equivalents</i>	<i>68,920</i>	<i>75,812</i>	<i>83,393</i>	<i>91,733</i>
<i>Other Current Assets</i>	<i>392,700</i>	<i>364,137</i>	<i>376,451</i>	<i>388,797</i>
<i>Current Liabilities</i>	<i>945,880</i>	<i>1,214,642</i>	<i>1,253,338</i>	<i>1,279,016</i>
Other Assets	—	—	—	—
Total Assets	3,660,484	3,788,317	3,928,104	4,029,649

Quarterly Financials (Rs m)

Y/e March	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Net Revenue	499,570	534,960	643,440	666,060
EBITDA	103,410	108,170	105,550	106,040
<i>% of revenue</i>	<i>20.7</i>	<i>20.2</i>	<i>16.4</i>	<i>15.9</i>
Depr. & Amortization	23,270	19,500	20,290	20,770
Net Interest	5,860	9,240	6,330	9,310
Other Income	21,410	20,330	22,800	30,250
Profit before Tax	95,690	99,760	101,730	106,210
Total Tax	23,420	24,280	24,690	25,990
Profit after Tax	72,270	75,480	77,040	80,220
Adj. PAT	72,270	75,480	77,040	80,220

Key Operating Metrics

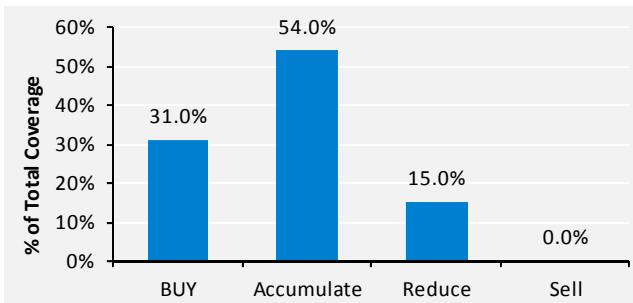
Y/e March	2016	2017E	2018E	2019E
Brent (US\$/bbl)	47.4	50.0	55.0	60.0
GRM(US\$/bbl)	10.8	10.5	10.9	10.9
Refining thrupt (MTPA)	69.6	69.0	69.0	70.0
US\$/Rs	65.4	66.5	68.0	69.0

Source: Company Data, PL Research.

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