

Reliance Industries

BSE SENSEX
31,715

S&P CNX
9,294

CMP: INR1,435 TP: INR1,618 (+13%)

Buy



Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	9099.4 / 122.8
52-Week Range (INR)	1618 / 876
1, 6, 12 Rel. Per (%)	18/20/21
12M Avg Val (INR M)	16415
Free float (%)	51.1

Financials Snapshot (INR b)

Y/E March	2020E	2021E	2022E
Net Sales	5,957	5,358	6,873
EBITDA	879	902	1,197
Net Profit	432	421	622
Adj. EPS (INR)	68.1	66.4	98.1
EPS Gr. (%)	8.4	-2.5	47.8
BV/Sh. (INR)	715.1	776.7	867.2

Ratios

Net D:E	0.6	0.5	0.3
RoE (%)	10.3	8.9	11.9
RoCE (%)	8.5	7.7	9.9
Payout (%)	11.6	7.3	7.8

Valuations

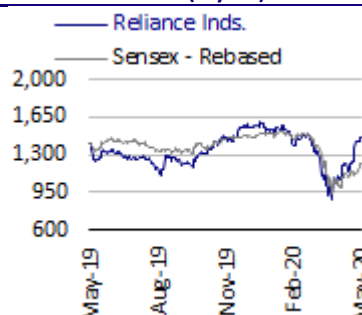
P/E (x)	21.5	22.0	14.9
P/BV (x)	2.0	1.9	1.7
EV/EBITDA(x)	13.5	13.2	9.4
EV/Sales (x)	2.0	2.2	1.6
Div. Yield (%)	0.4	0.3	0.4

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	48.9	48.9	46.2
DII	13.6	14.2	12.2
FII	26.3	25.6	25.7
Others	11.2	11.4	16.0

FII Includes depository receipts

Stock Performance (1-year)



Reaffirmation of Jio Platforms' valuation!

Tech investor Silver Lake picks 1.14% stake for INR55.8b

- Close on the heels of the RIL-Facebook deal ([see report](#)), global tech investor Silver Lake has acquired 1.14% stake in Jio Platforms for INR55.8b, at post-money equity value of INR4.9t (in-line).
- The stake sale further reaffirms global demand/confidence of marquee tech investors in Jio Platforms. This would enable Jio Platforms to crystalize its digital plans by leveraging the global experience of its investors.
- Further, RJio's leverage (net debt to EBITDA) has reduced from 9.7x in FY19 to 0.7x currently through recent capital reorganization, creation of InvIT and the stake sale, creating a lean balance sheet and healthy RoCE.
- We value Jio using DCF at INR 760/share which in-turn implies an FY22E EV/EBITDA of 11x.

Contours of the deal

- In an all-cash deal, Silver Lake has announced the acquisition of 1.14% stake in Jio Platforms at post-money equity value of INR4.9t and an enterprise value of INR5.2t.
- Compared to the recently announced Facebook deal at INR4.4t post-money equity value, Silver Lake's investment is at 12.5% premium on post-money equity basis and at ~11.5% on enterprise basis.
- We have ascribed INR5.1t as enterprise value, and thus, this deal is in line with our valuation for RJio.

Reaffirmation of the digital business

- A second deal in less than a month (following the mega RIL-FB tie-up) reaffirms the strong valuation of Jio Platforms and its global demand.
- Silver Lake boasts of other tech investments like Airbnb, Alibaba, Ant Financial, Alphabet's Verily and Waymo units, Dell Technologies and Twitter among others.
- Jio Platforms joins the illustrious list of marquee names in whose tech success Silver Lake has participated. Thus, Jio Platforms would now be able to crystalize its digital plans by leveraging the experience of Silver Lake.

Jio Digital now virtually debt free

RJio's leverage has reduced significantly in the past year – from net debt of INR1.4t (net debt to EBITDA of 9.7x) to just INR250b currently (net debt to EBITDA of about 0.7x). This is attributed to the Infrastructure Investment Trust (InvIT) of INR707b announced last fiscal, an additional INR1.08t (apart from the FB amount received) moving to RIL and ~INR147b from the FB stake sale (rest transferred to RIL). This has created a very lean balance sheet, enabling RJio to save interest cost of ~INR90b and garner RoCE of 18.6% in FY21E.

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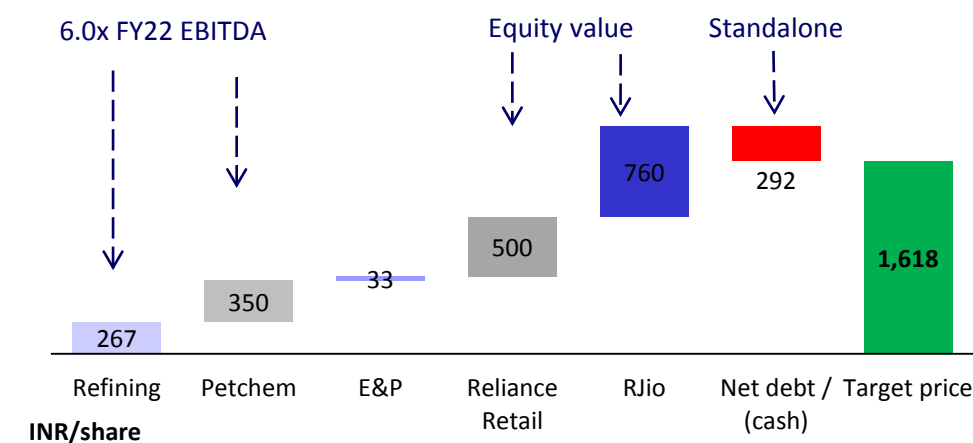
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

We expect RJio to garner 44% EBITDA CAGR over FY20-22E on the back of 22% revenue CAGR and 1,550bp margin improvement. Its recent 4QFY20 results saw the company post subdued ARPU growth. However, we understand the extended validity plans could accrue ARPU increase in FY21. Further, VIL’s stretched balance sheet offers an incremental opportunity to RJio through ARPU increase or market share gains. We have valued RJio at an enterprise value of INR5,084b using our DCF-based method, with an implied EV/EBITDA of 15x/11x on FY21/FY22E, to arrive at value/share of INR760.

Exhibit 1: RJio – DCF Valuation (INR b)



Source: MOFSL, Company

Exhibit 2: Post-money, RJio’s equity value stands at INR4.9b (INR b)

Jio Platforms	Pre-money	Silverlake amount infused in Jio Platforms	Post-money	Premium to FB deal
Enterprise Value	5,150	0	5,150	11.5%
Debt	306	56	250	
Equity Value	4,844	56	4,900	12.5%

Source: Company

Exhibit 3: Silver Lake infuses INR55.75b for 1.14% stake in Jio Platforms

Particulars	
Total amount received from Silverlake (INR b)	55.75
Stake (%)	1.14%

Source: Company

Exhibit 4: RJio – DCF Valuation (INR b)

Particulars	FY20E	FY21E	FY22E	FY23–30E
EBITDA	216	346	447	4,294
Capex	368	200	218	948
FCFF (pre-tax)	-153	146	229	3,346
Tax	-21	-60	-87	-996
FCFF (post-tax)	-173	87	142	2,351
Terminal Value				7,105
Cash flow after Terminal Value	-173	87	142	9,456
NPV (INR b)	5,084			

Particulars	
Terminal growth rate	5%
Enterprise value (INR b)	5,084
Net debt (INR b)	584
Equity value (INR b)	4,501
No of shares (b)	5.9
Target price (INR)	760

Source: MOFSL, Company

Exhibit 5: RJio's net debt reduces to INR250b

RJio debt reconciliation	Amount in INR b
Net debt including tower and fiber debt in 2QFY20	2,354
Tower debt	247
Fiber Debt	460
Debt remaining after tower and fiber debt	1,647
Debt transferred to RIL	1,080
Net debt post reorganisation based on 2QFY20	567
Debt reduction in 2HFY20	246
Net debt as of Mar'20	321
Net debt during Silverlake deal	306
Cash received from Silverlake deal	56
Net debt post Silverlake deal	250

Note: We considered INR460b in fiber debt in our valuation as the deal is yet to be finalized

Source: MOFSL, Company

Exhibit 6: VIL needs to implement price hike to survive

(Amount in INR b)	FY22
Capex	52
Cash Interest	30
Deferred spectrum liability	165
AGR payment	52
Total requirement	300
EBITDA (pre-IND-AS 116)	195
Incremental EBITDA required	105
Incremental revenue required	149
ARPU (INR)	138
Subscribers (m)	364
ARPU hike required (INR)	34
New ARPU (INR)	173
Increase in ARPU required (%)	25%

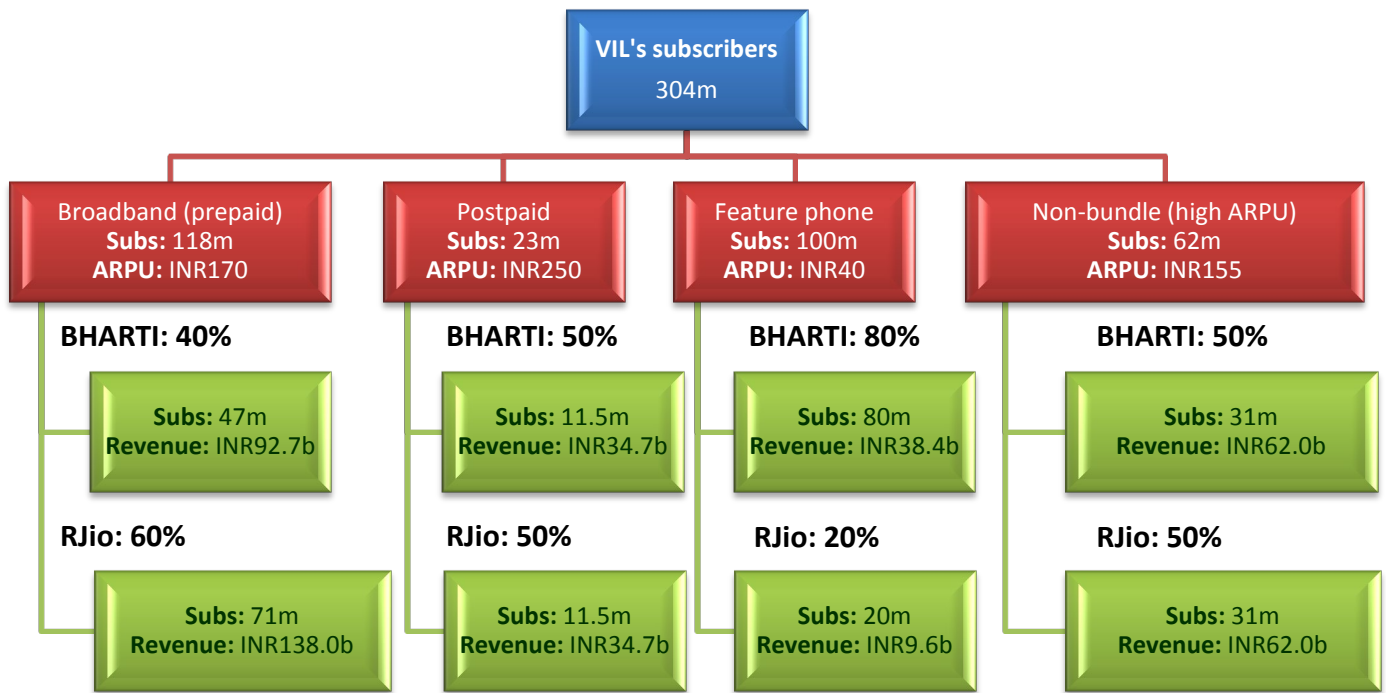
Source: MOFSL, Company

Exhibit 7: At 25% ARPU hike (needed by VIL to survive), RJio's incremental EBITDA estimated at INR142b

Company	RJio
(Amount in INR b)	FY22
EBITDA	447
ARPU (INR)	148
Increase in ARPU due to VIL price hike (%)	25%
New ARPU	185
Subscribers (m)	462
Incremental revenue	203
Incremental EBITDA	142
New EBITDA	589
Increase in EBITDA (%)	32%

Source: MOFSL, Company

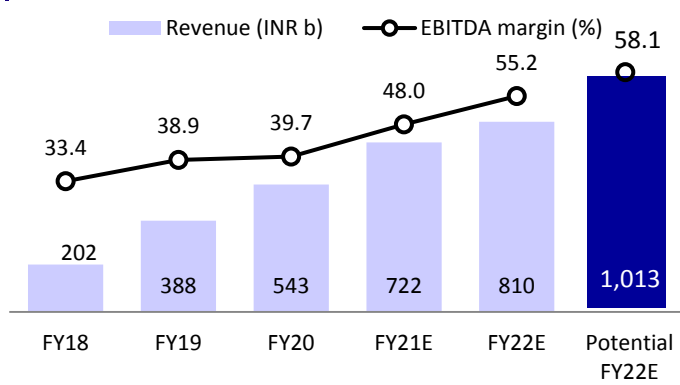
Exhibit 8: VIL's customer transition to BHARTI/RJio – Customer split at ~60%/40%, while revenue split is equal



Source: MOFSL, Company

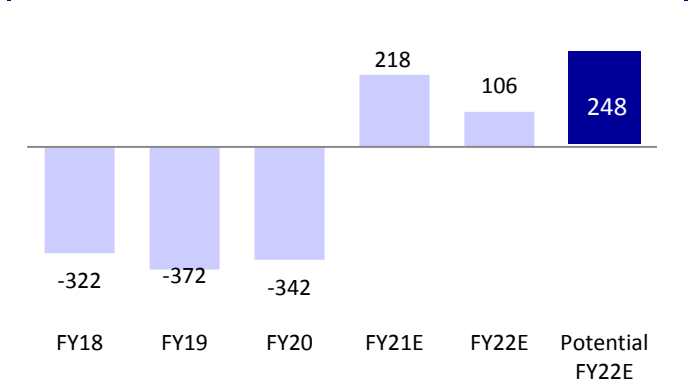
Reliance Jio Infocomm: Story in charts

Exhibit 9: Potential to reach INR1b in revenue in FY22E



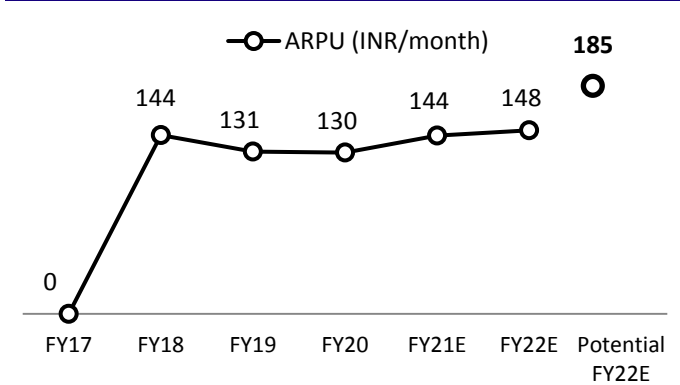
Source: Company, MOFSL

Exhibit 47: FCF potential to reach INR248b in FY22E (INR b)



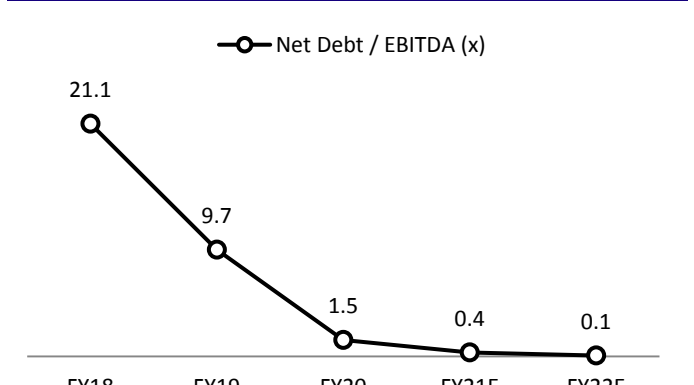
Source: Company, MOFSL

Exhibit 10: ARPU potential to reach ~INR185 in FY22E



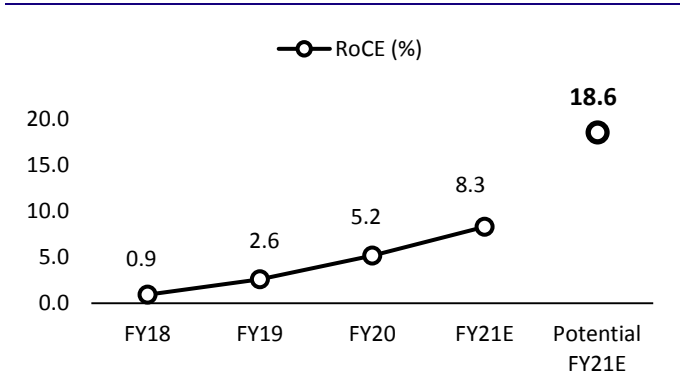
Source: Company, MOFSL

Exhibit 48: Net debt / EBITDA to decline



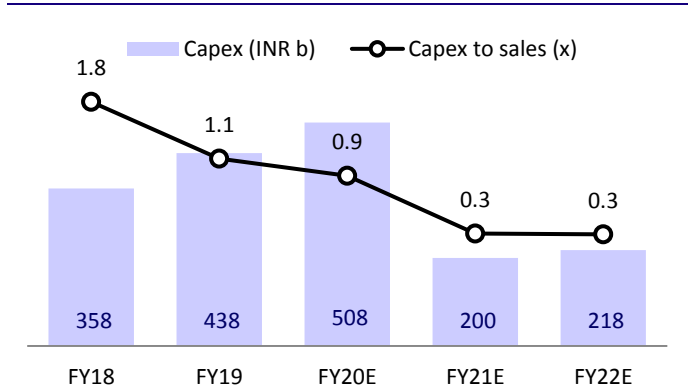
Source: Company, MOFSL

Exhibit 11: RoCE potential to reach 18.6% in FY21E



Source: Company, MOFSL

Exhibit 49: Capex/sales to decrease to 0.3x in FY22E



Source: Company, MOFSL

Reliance Jio Infocomm: Financials and valuations

Consolidated – Income statement								(INR b)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	0	0	0	202	388	543	722	810
Change (%)	NA	0.0	-50.0	NA	92.7	39.9	32.9	12.2
Total Expenditure	0	0	0	134	237	327	376	363
% of Sales	NA	NA	NA	66.6	61.1	60.3	52.0	44.8
EBITDA	0	0	0	67	151	216	346	447
Margin (%)	NA	NA	NA	33.4	38.9	39.7	48.0	55.2
Depreciation	0	0	0	36	64	74	101	111
EBIT	0	0	0	32	87	142	246	335
Int. and Finance Charges	0	0	0	20	41	66	25	34
Other Income	0	0	0	0	0	1	4	17
PBT after EO Exp.	0	0	0	11	46	76	225	319
Total Tax	0	0	0	4	16	21	60	87
Tax Rate (%)	0.0	34.4	34.5	34.8	34.9	27.2	26.6	27.1
Reported PAT	0	0	0	7	30	56	165	233
Adjusted PAT	0	0	0	7	30	56	165	233
Change (%)	NA	-31.7	98.6	LP	310.0	87.7	196.7	41.0
Margin (%)	NA	NA	NA	3.6	7.6	10.2	22.9	28.7

Consolidated – Balance sheet								(INR b)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	301	450	450	450	450	450	450	450
Total Reserves	-1	-78	259	579	-46	1,260	1,425	1,657
Net Worth	301	372	709	1,029	404	1,710	1,875	2,107
Total Loans	239	884	1,244	1,438	1,479	421	421	421
Capital Employed	539	1,257	1,953	2,468	1,883	2,130	2,295	2,528
Gross Block	10	12	14	1,595	1,444	1,772	2,224	2,442
Less: Accum. Deprn.	1	2	4	40	104	138	278	390
Net Fixed Assets	9	9	10	1,555	1,340	1,634	1,946	2,053
Capital WIP	723	1,061	1,780	700	346	213	0	0
Total Investments	8	8	9	10	13	25	11	11
Curr. Assets, Loans&Adv.	80	197	211	272	259	545	677	806
Account Receivables	0	0	0	9	7	16	40	44
Cash and Bank Balance	0	0	0	7	4	75	286	376
Loans and Advances	80	197	210	256	247	454	351	385
Curr. Liability & Prov.	281	19	56	70	74	152	154	157
Account Payables	0	0	0	31	33	47	46	45
Other Current Liabilities	281	19	55	34	41	104	94	97
Provisions	0	0	1	5	1	1	14	16
Net Current Assets	-201	178	155	202	185	394	523	649
Appl. of Funds	539	1,257	1,953	2,468	1,883	2,265	2,480	2,713

E: MOFSL Estimates

Reliance Jio Infocomm: Financials and valuations

Ratios								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)								
EPS	0.0	0.0	0.0	0.2	0.7	1.2	3.7	5.2
Cash EPS	0.0	0.0	0.0	1.0	2.1	2.9	5.9	7.6
BV/Share	10.0	8.3	15.7	22.9	9.0	38.0	41.7	46.8
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
FCF per share		-4.9	-9.3	-7.2	-8.3	-7.6	4.9	2.4
Return Ratios (%)								
RoE	-0.1	0.0	-0.1	0.8	4.1	5.3	9.2	11.7
RoCE	NA	0.0	0.0	0.9	2.6	5.2	8.3	10.7
RoIC	NA	7.7	-0.2	2.1	3.5	6.2	9.5	11.8
Working Capital Ratios								
Fixed Asset Turnover (x)	0.0	0.0	0.0	0.1	0.3	0.3	0.3	0.3
Asset Turnover (x)	0.0	0.0	0.0	0.1	0.2	0.2	0.3	0.3
Debtor (Days)	274	913	3,650	17	7	11	20	20
Creditor (Days)	0	0	0	56	31	32	23	20
Leverage Ratio (x)								
Current Ratio	0.3	10.3	3.8	3.9	3.5	3.6	4.4	5.1
Interest Cover Ratio	-14.0	-18.0	-47.2	1.5	2.1	2.1	9.7	10.0
Net Debt/Equity	0.8	2.4	1.7	1.4	3.6	0.2	0.1	0.0

Consolidated – Cash flow statement									(INR b)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	
OP/(Loss) before Tax	0	0	0	11	46	76	225	319	
Depreciation	0	0	0	36	64	74	101	111	
Interest & Finance Charges	0	0	0	20	41	66	25	34	
Direct Taxes Paid	0	0	0	-2	-10	-12	-60	-87	
(Inc)/Dec in WC	-28	-43	-34	-29	-75	-37	116	-36	
CF from Operations	-28	-44	-34	36	66	168	407	342	
Others	0	0	0	0	0	-2	11	-17	
CF from Operating incl EO	-28	-44	-34	36	67	166	418	324	
(Inc)/Dec in FA	-95	-176	-385	-358	-438	-508	-200	-218	
Free Cash Flow	-123	-220	-419	-322	-372	-342	218	106	
(Pur)/Sale of Investments	-5	0	0	-1	0	-9	14	0	
Others	0	0	0	0	0	4	8	22	
CF from Investments	-101	-177	-386	-359	-438	-512	-178	-196	
Issue of Eq/Pref.Shares	71	150	337	313	0	1,250	0	0	
Inc/(Dec) in Debt	72	103	141	102	460	-538	0	0	
Interest Paid	-13	-33	-58	-85	-92	-103	-25	-34	
Dividend Paid	0	0	0	0	0	0	0	0	
Others	0	0	0	0	0	0	0	0	
CF from Fin. Activity	129	220	420	330	368	609	-25	-34	
Inc/Dec of Cash	0	0	0	7	-3	262	216	94	
Opening Balance	0	0	0	0	7	0	71	282	
Closing Balance	0	0	0	7	4	262	286	376	

Reliance Consol.: Financials and valuations

Consolidated – Income statement								(INR b)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Total Income from Operations	3,754.4	2,740.0	3,053.8	3,916.8	5,692.1	5,957.0	5,357.8	6,872.5
Change (%)	-13.6	-27.0	11.5	28.3	45.3	4.7	-10.1	28.3
EBITDA	373.6	417.0	461.9	641.8	841.7	878.8	902.4	1,197.3
Margin (%)	10.0	15.2	15.1	16.4	14.8	14.8	16.8	17.4
Depreciation	115.5	115.7	116.5	167.1	209.3	222.0	244.0	259.3
EBIT	258.2	301.4	345.5	474.7	632.3	656.7	658.4	938.0
Int. and Finance Charges	33.2	36.9	38.5	80.5	165.0	220.3	232.5	229.9
Other Income	86.1	122.9	93.4	88.6	83.9	143.0	140.0	137.3
PBT bef. EO Exp.	311.1	387.4	400.3	482.8	551.2	579.4	565.8	845.5
EO Items	0.0	0.0	0.0	0.0	0.0	-44.4	0.0	0.0
PBT after EO Exp.	311.1	387.4	400.3	482.8	551.2	535.0	565.8	845.5
Total Tax	74.7	88.8	102.0	133.5	153.9	137.3	145.6	224.0
Tax Rate (%)	24.0	22.9	25.5	27.6	27.9	25.7	25.7	26.5
Minority Interest	0.7	1.2	-0.7	-11.5	-1.0	-1.1	-0.7	-0.7
Reported PAT	235.7	297.5	299.0	360.8	398.4	398.8	420.9	622.1
Adjusted PAT	235.7	297.5	299.0	360.8	398.4	431.8	420.9	622.1
Change (%)	4.8	26.2	0.5	20.7	10.4	8.4	-2.5	47.8
Margin (%)	6.3	10.9	9.8	9.2	7.0	7.2	7.9	9.1

Consolidated – Balance sheet								(INR b)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	29.4	29.5	29.6	59.2	59.3	63.4	63.4	63.4
Total Reserves	2,155.4	2,286.0	2,607.5	2,875.8	3,811.9	4,469.9	4,860.2	5,433.5
Net Worth	2,185.0	2,315.6	2,637.1	2,935.1	3,871.1	4,533.3	4,923.6	5,496.9
Minority Interest	30.4	33.6	29.2	35.4	82.8	80.2	80.2	80.2
Total Loans	1,682.5	1,947.1	1,836.8	1,816.0	2,719.4	2,914.2	3,014.2	2,514.2
Deferred Tax Liabilities	129.7	204.9	212.0	245.4	499.2	541.2	541.2	541.2
Capital Employed	4,027.6	4,501.2	4,715.0	5,031.9	7,172.6	8,068.9	8,559.1	8,632.5
Gross Block	2,844.7	3,312.5	3,564.0	5,775.5	5,867.8	7,450.1	8,572.9	9,197.5
Less: Accum. Deprn.	1,324.1	1,505.9	1,627.7	1,794.7	2,004.1	2,226.1	2,470.1	2,729.4
Net Fixed Assets	1,520.6	1,806.6	1,936.3	3,980.7	3,863.8	5,224.0	6,102.8	6,468.1
Goodwill on Consolidation	44.0	42.5	48.9	58.1	120.0	102.6	102.6	102.6
Capital WIP	1,664.6	2,287.0	3,248.4	1,870.2	1,794.6	1,091.1	468.2	343.6
Total Investments	764.5	840.2	856.1	855.3	2,403.0	2,767.7	2,767.7	2,767.7
Curr. Assets, Loans&Adv.	1,051.2	1,013.8	978.3	1,348.4	1,842.7	2,473.8	2,341.3	3,085.3
Inventory	532.5	464.9	489.5	608.4	675.6	739.0	663.5	851.1
Account Receivables	53.2	44.7	81.8	175.6	300.9	196.6	176.5	226.4
Cash and Bank Balance	125.5	110.3	30.2	42.6	110.8	309.2	397.8	592.3
Loans and Advances	340.1	394.0	376.8	521.9	755.4	1,229.1	1,103.5	1,415.5
Curr. Liability & Prov.	1,017.2	1,488.8	2,353.0	3,080.8	2,851.5	3,590.3	3,223.5	4,134.8
Account Payables	594.1	603.0	766.0	1,068.6	1,083.1	968.0	869.1	1,114.8
Other Current Liabilities	353.7	855.8	1,545.9	1,970.8	1,721.1	2,580.8	2,317.2	2,972.3
Provisions	69.5	30.1	41.2	41.4	47.3	41.5	37.2	47.7
Net Current Assets	33.9	-475.0	-1,374.7	-1,732.5	-1,008.8	-1,116.4	-882.2	-1,049.6
Appl. of Funds	4,027.6	4,501.2	4,715.0	5,031.9	7,172.6	8,068.9	8,559.1	8,632.5

E: MOFSL Estimates

Reliance Consol.: Financials and valuations

Ratios								
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
EPS	37.2	46.9	47.2	56.9	62.8	68.1	66.4	98.1
Cash EPS	55.4	65.2	65.5	83.3	95.9	103.2	104.9	139.0
BV/Share	344.7	365.3	416.0	463.0	610.7	715.1	776.7	867.2
DPS	4.6	4.9	5.1	5.6	6.1	6.1	4.0	6.4
Payout (%)	15.1	12.4	13.1	11.9	11.6	11.6	7.3	7.8
Valuation (x)								
P/E	39.4	31.2	31.0	25.7	23.3	21.5	22.0	14.9
Cash P/E	26.4	22.5	22.3	17.6	15.3	14.2	14.0	10.5
P/BV	4.2	4.0	3.5	3.2	2.4	2.0	1.9	1.7
EV/Sales	2.9	4.1	3.6	2.8	2.1	2.0	2.2	1.6
EV/EBITDA	29.0	26.7	24.0	17.2	14.1	13.5	13.2	9.4
Dividend Yield (%)	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.4
Return Ratios (%)								
RoE	11.3	13.2	12.1	13.0	11.7	10.3	8.9	11.9
RoCE	7.2	8.0	7.5	8.8	9.1	8.5	7.7	9.9
RoIC	12.8	17.0	27.9	24.2	17.8	14.4	11.1	14.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	0.8	0.9	0.7	1.0	0.8	0.6	0.7
Asset Turnover (x)	0.9	0.6	0.6	0.8	0.8	0.7	0.6	0.8
Inventory (Days)	52	62	59	57	43	45	45	45
Debtor (Days)	5	6	10	16	19	12	12	12
Creditor (Days)	58	80	92	100	69	59	59	59
Leverage Ratio (x)								
Current Ratio	1.0	0.7	0.4	0.4	0.6	0.7	0.7	0.7
Interest Cover Ratio	7.8	8.2	9.0	5.9	3.8	3.0	2.8	4.1
Net Debt/Equity	0.7	0.8	0.7	0.6	0.7	0.6	0.5	0.3

Consolidated – Cash flow statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
PBT	311.1	387.4	400.3	482.8	551.2	535.0	565.8	845.5
Depreciation	115.5	115.7	116.5	167.1	209.3	222.0	244.0	259.3
Tax paid	-74.7	-88.8	-102.0	-133.5	-153.9	-137.3	-145.6	-224.0
Change in deferred tax liability	10.5	75.2	7.0	33.5	253.8	42.0	0.0	0.0
Change in net working capital	279.9	493.8	819.6	370.1	-655.4	306.0	-145.6	361.9
Operating cash flow	641.5	982.1	1,242.1	931.4	206.1	968.8	519.3	1,243.3
Capex	-1,015.6	-1,022.5	-1,214.0	-842.5	-1,427.5	-2,210.1	-500.0	-500.0
Change in investments	-158.5	-75.6	-15.9	0.8	-198.9	984.2	0.0	0.0
Investing cash flows	-1,174.1	-1,098.2	-1,229.9	-841.7	-1,626.4	-1,226.0	-500.0	-500.0
Change in borrowings	294.9	264.6	-110.4	-20.7	903.4	194.8	100.0	-500.0
Issuance of equity	-2.0	-129.9	61.7	-20.0	584.1	309.8	0.0	0.0
Others	18.8	-126.7	57.3	-13.8	631.5	307.2	0.0	0.0
Dividend paid	-35.6	-37.0	-39.2	-42.8	-46.4	-46.4	-30.6	-48.8
Financing cash flow	278.2	100.9	-92.3	-77.3	1,488.5	455.5	69.4	-548.8
Net change in cash	-254.4	-15.2	-80.1	12.3	68.3	198.4	88.6	194.5
Closing cash balance	125.5	110.3	30.2	42.6	110.8	309.2	397.8	592.3

E: MOFSL Estimates

NOTES

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Investment Rating	Expected return (over 12-month)
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NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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