

Reliance Industries

BSE SENSEX
31,643

S&P CNX
9,252

CMP: INR1,562 TP: INR1,713 (+10%)

Buy



Stock Info

Bloomberg	RIL IN
Equity Shares (m)	6,339
M.Cap.(INRb)/(USDb)	9900.8 / 126.5
52-Week Range (INR)	1618 / 876
1, 6, 12 Rel. Per (%)	25/30/36
12M Avg Val (INR M)	16594
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

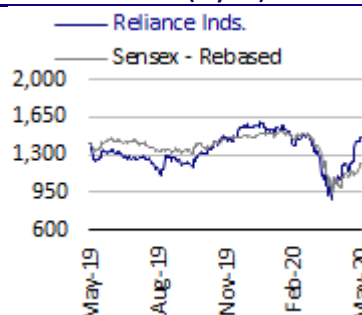
P/E (x)	22.9	23.5	15.9
P/BV (x)	2.2	2.0	1.8
EV/EBITDA(x)	14.2	13.9	9.9
EV/Sales (x)	2.1	2.3	1.7
Div. Yield (%)	0.4	0.3	0.4

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)



Another feather in Jio Platforms' cap

Global investor Vista Equity Partners picks 2.32% stake for INR113.7b

- Reliance Industries' (RIL) Jio Platforms appears to be the new darling of the global investing community. In less than three weeks, on 8th May'20, RIL has announced a third equity stake sale in Jio Platforms to US-based investment firm Vista Equity Partners. Vista would invest INR113.7b in Jio Platforms for 2.32% equity stake at post-money equity value of INR4.91t (in-line).
- Once again, this deal reiterates global investors' interest in Jio Platforms. Moreover, Jio Platforms is in a sweet spot currently. With investments coming from Facebook (FB) ([see report](#)), Silver Lake ([see report](#)) and now Vista, the company would be better-abled to crystalize its digital plans.
- Further, Jio Platforms has turned virtually debt free through the recent capital reorganization, InvIT structure and now the stake sales.
- We value Jio Platforms assigning EV/EBITDA multiple of 13x on FY22E to arrive at a target price of INR855/share.

Contours of the deal

- RIL's announcement states that Vista Equity Partners would invest INR113.7b in Jio Platforms for 2.32% equity stake at post-money equity value of INR4.91t and at enterprise value of INR5.2t.
- Jio Platforms' valuation in this deal is in line with the Silver Lake investment (INR4.9t post-money equity) and is at 12.7% premium to the FB deal (INR4.4t).
- This is the third high-profile investment in RIL's Jio Platforms in less than three weeks; overall RIL has raised INR606b for 13.5% equity stake through the three deals.

Strong conviction on Jio Platforms' valuation

- The third high-profile investment in Jio Platforms in less than three weeks reiterates the company's global demand and reaffirms its valuation.
- Vista Equity Partners is a 20-year old global investment firm with USD57b in cumulative capital commitments and its global network of companies represents the fifth largest enterprise software in the world.
- Thus, the deal is significant from the perspective of RJio's valuation and demand with the global investor community. Also, Jio Platforms will be able to leverage the experience of Vista's expertise to fulfill its digital plans.

RJio virtually a debt-free company

Also, RJio has turned virtually debt free due to (a) the creation of the InvIT structure of INR707b in FY20 wherein the company has transferred its tower and fiber assets, (b) capital reorganization in which INR1.08t was transferred to the parent company, and (c) stake sales – INR147b from the FB deal (rest transferred to RIL), INR55.8b from Silverlake deal and INR113.7b from the current Vista deal.

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

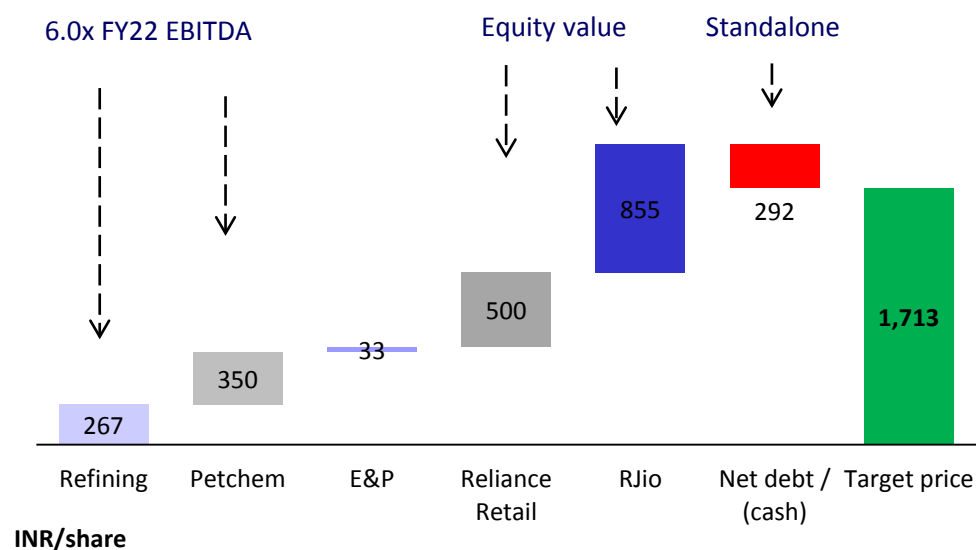
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

With all these transactions, RJio's net debt has reduced from INR1.4t in FY19 to INR5b currently (net debt to EBITDA reduced from 9.7x to virtually nil in FY21E) and has enabled RJio to create a healthy balance sheet. These transactions along with EBITDA hike opportunity (either through ARPU hike or market share gains) could provide potential RoCE of 15.2% in FY21E.

Valuation and view

RJio should garner revenue/EBITDA CAGR of 22%/44% over FY20-22E along with strong EBITDA margin expansion. Although the company has witnessed subdued ARPU growth in 4QFY20, we believe this could be due to longer validity plans and full benefit of the price hike should accrue in FY21. Further, the favorable competitive landscape in the Indian telecom industry could offer healthy incremental EBITDA gain through a combination of ARPU increase and market share gains. Due to RJio's lower debt and market leadership position, the company should garner premium valuations as compared to competitors. Thus, we have valued RJio at INR855/share (v/s INR760/share earlier) assigning 13x EV/EBITDA on FY22E (v/s Bharti's 11x on India business). Subsequently, we have increased target price of RIL to INR1,713/share from INR1,618 earlier.

Exhibit 1: RJio – DCF Valuation (INR b)



Source: MOFSL, Company

Exhibit 2: Post fund infusion, RJio's equity value stands at INR4.91t (INR b)

Jio Platforms	Pre-money	Vista amount infused in Jio Platforms	Post-money
Enterprise Value	5,160	0	5,160
Debt	364	113.67	250
Equity Value	4,796	113.67	4,910

Source: Company

Exhibit 3: Vista infuses INR113.67b for 2.32% stake in Jio Platforms

Particulars	
Total amount received from Vista (INR b)	113.67
Stake (%)	2.32%

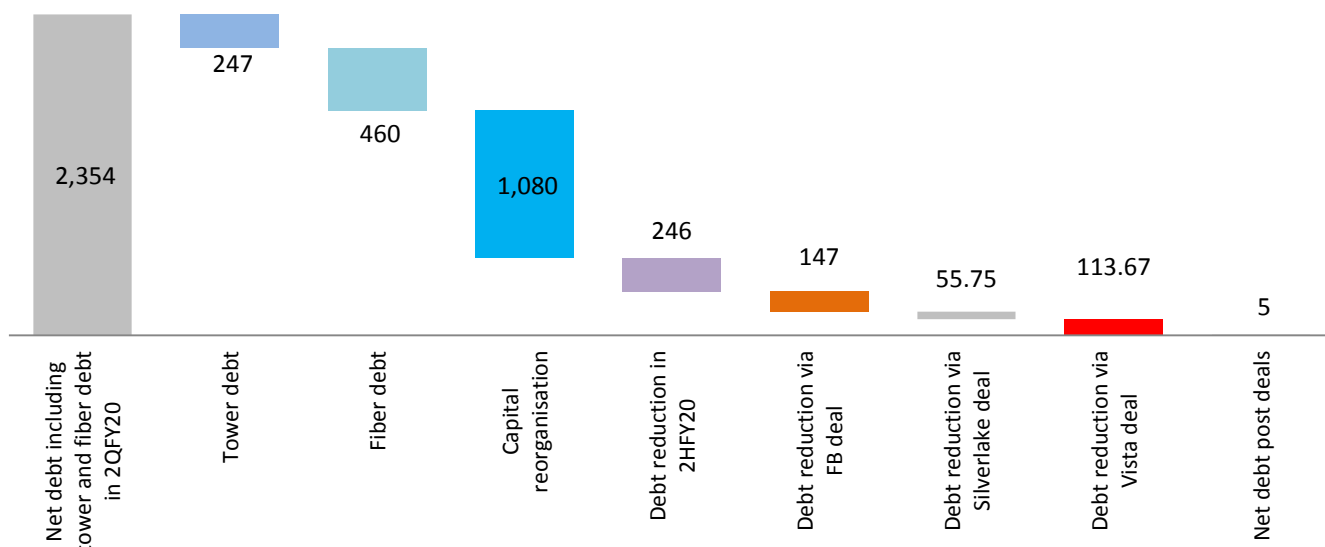
Source: Company

Exhibit 4: RJio – EV/EBITDA based valuation for FY22E

Particulars	(INRb)
EBITDA	447
EV/EBITDA (x)	13
EV	5,645
Debt	584
Equity Value	5,061
Value Per Share	855

Source: MOFSL, Company

Exhibit 5: RJio is virtually debt free



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

Source: MOFSL, Company

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	42.0	33.3	33.1	27.4	24.9	22.9	23.5	15.9
Cash P/E	28.2	24.0	23.8	18.8	16.3	15.1	14.9	11.2
P/BV	4.5	4.3	3.8	3.4	2.6	2.2	2.0	1.8
EV/Sales	3.1	4.3	3.8	3.0	2.2	2.1	2.3	1.7
EV/EBITDA	30.7	28.1	25.3	18.2	14.9	14.2	13.9	9.9
Dividend Yield (%)	0.3	0.3	0.3	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

(INR b)

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

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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