

Stock Update

Robust core business performance; telecom continue to surprise positively

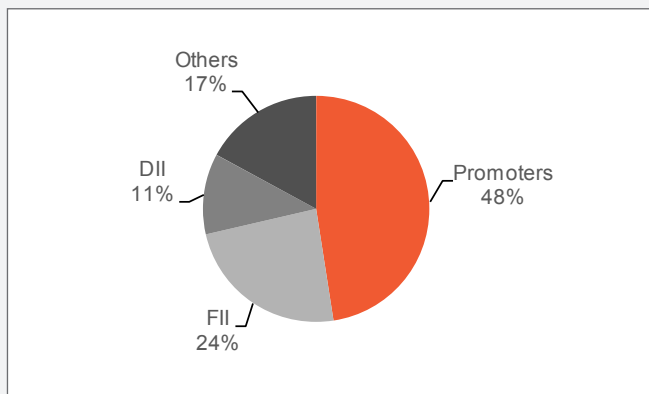
Reliance Industries

Reco: Buy | CMP: Rs929

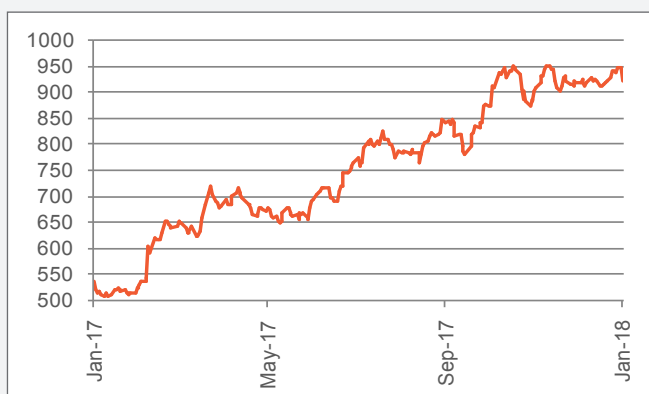
Company details

Price target:	Rs1,110
Market cap:	Rs588,643 cr
52-week high/low:	Rs959/507
NSE volume: (No of shares)	58.3 lakh
BSE code:	500325
NSE code:	RELIANCE
Sharekhan code:	RELIANCE
Free float: (No of shares)	332.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.1	0.6	21.0	79.4
Relative to Sensex	-4.8	-7.2	8.5	36.9

Key points

- Marginally higher operating profit led by slight beat in petchem EBIT margin; PAT in line with estimates:** Reliance Industries Ltd (RIL) reported marginally higher standalone operating profits of Rs. 13,744 crore as petrochemical EBIT margins slightly exceeded estimates at 17.4% and petrochemical production was higher than expected at 8 mmt (rising 29% y-o-y). Gross refining margin (GRM) at \$11.6/bbl was in line with our estimates and RIL's GRM premium over the Singapore complex GRM widened to \$4.4/bbl in Q3FY2018 from \$3.7/bbl in Q2FY2018. Standalone profit after tax (PAT), of Rs. 8,454 crore was also in-line with our estimates as marginally higher operating profit was offset by higher-than-expected depreciation and lower-than-expected other income. The domestic oil & gas business continued to disappoint as natural gas production from KG D-6 block declined 34% y-o-y to 16 billion cubic feet (bcf) and as the company reported an EBIT loss of Rs. 91 crore for the segment.
- Reliance JIO reports profit in second quarter of commercial operations; RoGC project commissioned:** Reliance JIO (RJIO – digital services business) surprised positively with strong EBITDA margin of 38.2% (EBITDA of Rs. 2,628 crore) and PAT of Rs. 502 crore. We highlight here that RJIO EBITDA margin was higher compared to 32.6% for Bharti Airtel's India wireless business in Q3FY2018. Average revenue per user (ARPU) was healthy at Rs. 154 (versus Rs. 156.4 in Q2FY2018). Strong subscriber addition continues as 2.15 crore subscribers were added (versus 1.53 crore in Q2FY2018) taking the JIO subscriber base to ~16 crore as on December 31, 2017. RIL has also successfully commissioned its 1.5 mtpa refinery off-gas cracker (RoGC) plant along with downstream plants (for mono-ethylene glycol and polyethylene) at Jamnagar.
- Outlook – Robust outlook for core businesses; improving trend for telecom financials:** The RoGC plant, ethane import and petcoke gasification projects are expected to garner ~\$1.8 billion (~Rs. 11,500 crore) at full utilisation, given the feedstock benefit. Moreover, the economics of petcoke gasification project has also improved, given the recent increase in crude oil prices. This is, however, partially offset by higher international petcoke prices. We expect financials of the telecom business to improve on our assumption of APRU accretion, given lower freebies and likely strong subscriber addition.
- Valuation – Maintain Buy rating with revised PT of Rs. 1,110:** To factor strong performance of the telecom business, we increase our FY2018E EPS and maintain it for FY2019E and FY2020E. We also fine-tune our valuation for the telecom business and revise our price target on stock to Rs. 1,110. We maintain our Buy rating on the company, as we expect EBITDA to clock a strong 21% CAGR over FY2017-FY2020E, on account of an earnings boost from commissioning of core downstream projects and resilient refining and petrochemical margins. At CMP, the stock is trading at 13.8x FY2019E EPS and 12.6x FY2020E EPS.

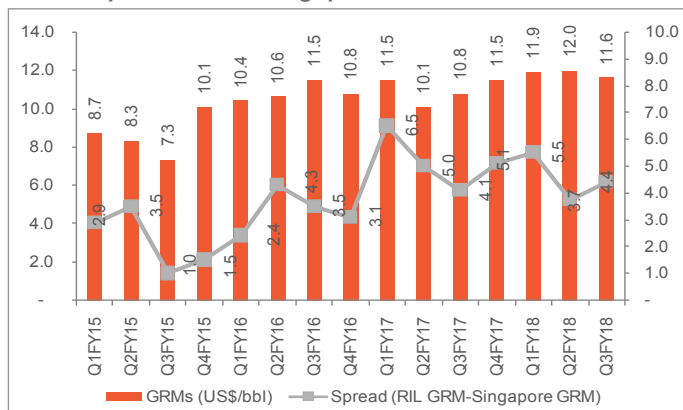
Results (Standalone)					Rs cr	
Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	
Net sales	73,256	61,806	18.5	68,532	6.9	
Total expenditure	59,512	51,202	16.2	55,549	7.1	
RM consumed	51,767	43,289	19.6	45,307	14.3	
Stock adjustment	(3,162)	(2,253)	40.3	924	(442.2)	
Purchase of FG	1,112	1,029	8.1	2,166	(48.7)	
Staff expenses	1,142	949	20.3	1,182	(3.4)	
Other expenses	8,653	8,188	5.7	5,970	44.9	
Operating profit	13,744	10,604	29.6	12,983	5.9	
Other income	1,624	3,025	(46.3)	2,057	(21.1)	
EBITDA	15,368	13,629	12.8	15,040	2.2	
Interest	1,094	931	17.5	1,314	(16.7)	
Depreciation	2,475	2,077	19.2	2,268	9.1	
PBT	11,799	10,621	11.1	11,458	3.0	
Exceptional item						
Tax	3,345	2,599	28.7	3,193	4.8	
PAT	8,454	8,022	5.4	8,265	2.3	
Extraordinary items						
Reported PAT	8,454	8,022	5.4	8,265	2.3	
EPS	13.3	12.7	5.4	13.1	2.3	
			BPS		BPS	
OPM (%)	18.8	17.2	160	18.9	(18)	
PATM (%)	11.5	13.0	(144)	12.1	(52)	
Tax rate (%)	28.3	24.5	388	27.9	48	

Source: Company data

Segment-wise performance (consolidated)					Rs cr	
Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	
Gross Revenue						
Petrochemicals	33,726	22,854	47.6	27,999	20.5	
Refining	75,865	61,693	23.0	69,766	8.7	
Oil& gas	1,631	1,215	34.2	1,503	8.5	
Organized Retail	18,798	8,688	116.4	14,646	28.3	
Digital Service	8,136	139	5,753.2	7,213	12.8	
Others	3,026	2,017	50.0	2,459	23.1	
Total Gross Revenue	141,182	96,606	46.1	123,586	14.2	
Less: Segment Transfer	31,277	12,417	151.9	22,417	39.5	
Turn over	109,905	84,189	30.5	101,169	8.6	
Less: excise duty	10,095	4,780	111.2	9,688	4.2	
Net sales	99,810	79,409	25.7	91,481	9.1	
EBIT						
Petrochemicals	5,753	3,326	73.0	4,960	16.0	
Refining	6,165	6,194	(0.5)	6,621	(6.9)	
Oil& gas	(291)	(295)	(1.4)	(272)	7.0	
Organized Retail	487	231	110.8	334	45.8	
Digital Service	1,440	(8)	(18,100.0)	261	451.7	
Others	235	77	205.2	142	65.5	
Total EBIT	13,789	9,525	44.8	12,046	14.5	
EBIT Margins (%)			YoY bps		QoQ bps	
Petrochemicals	17.1	14.6	250	17.7	(66)	
Refining	8.1	10.0	(191)	9.5	(136)	
Oil& gas	(17.8)	(24.3)	NA	(18.1)	NA	
Organized Retail	2.6	2.7	(7)	2.3	31	
Digital Service	17.7	(5.8)	2,345	3.6	1,408	
Others	7.8	3.8	395	5.8	199	
Total EBIT Margin	9.8	9.9	(9)	9.7	2	

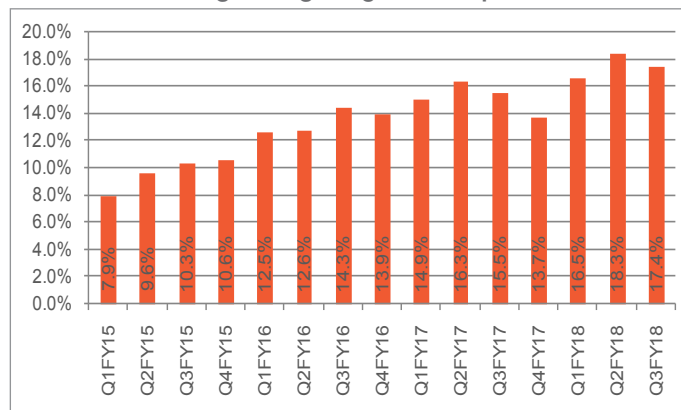
Source: Company data

RIL GRM premium over Singapore GRM widens to \$4.4/bbl



Source: Company data

Petrochemical margin marginally above expectation



Source: Company data

Consolidated Q3FY2018 results snapshot

Particulars	Rs cr				
	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Net sales	99,810	79,408	25.7	91,481	9.1
Total expenditure	82,222	67,834	21.2	75,916	8.3
Raw material consumed	54,864	46,774	17.3	47,678	15.1
Stock adjustment	(6,633)	(1,780)	272.6	(236)	2,710.6
Purchase of finished goods	17,489	10,710	63.3	13,891	25.9
Employee expenses	2,333	1,894	23.2	2,260	3.2
Other expenses	14,169	10,236	38.4	12,323	15.0
Operating profit	17,588	11,574	52.0	15,565	13.0
Other income	2,218	2,736	(18.9)	2,317	(4.3)
EBITDA	19,806	14,310	38.4	17,882	10.8
Interest	2,095	1,204	74.0	2,272	(7.8)
Depreciation	4,530	2,793	62.2	4,287	5.7
PBT	13,181	10,313	27.8	11,323	16.4
Exceptional item	-	-			
Tax	3,775	2,716	39.0	3,240	16.5
PAT	9,406	7,597	23.8	8,083	16.4
To associates & Minority interest	17	(64)	(126.6)	26	(34.6)
Extraordinary items	-	-		-	
Reported PAT	9,423	7,533	25.1	8,109	16.2
Adjusted PAT	9,423	7,533	25.1	8,109	16.2
EPS	15.9	12.7	25.1	13.7	16.2
			BPS		BPS
OPM (%)	17.6	14.6	305	17.0	61
PATM (%)	9.4	9.5	(5)	8.9	58
Tax rate (%)	28.6	26.3	230	28.6	3

Source: Company data

Valuations (Consolidated)

Particulars	Rs cr				
	FY16	FY17	FY18E	FY19E	FY20E
Net sales	273,999	305,382	352,338	384,401	413,806
Growth (%)	-27.0	11.5	15.4	9.1	7.6
Operating Profit	41,704	46,194	64,260	74,658	82,595
OPM (%)	15.2	15.1	18.2	19.4	20.0
Adj PAT	25,287	29,833	35,920	39,878	43,486
Adj. EPS (Rs)	42.9	50.4	60.7	67.4	73.5
y-o-y change (%)	7.3	17.5	20.4	11.0	9.0
PER (x)	21.7	18.4	15.3	13.8	12.6
EV/EBIDTA (x)	17.5	15.8	11.3	9.7	8.8
Dividend yield (%)	1.1	1.2	1.1	1.1	1.1
RoCE (%)	9.7	9.3	10.2	10.7	10.8
RoNW (%)	10.9	11.2	11.8	11.7	11.3

Source: Company data, Sharekhan estimates

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igc@sharekhan.com or contact: myaccount@sharekhan.com

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