

Pick of the week



Reliance Industries Ltd

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 1105

Target Price

₹ 1850

Potential Upside

60.9%

Investment Argument

- Q3FY20 Consolidated EBITDA increased 1% qoq to Rs. 223.9 bn, however, adjusted net income increased 5% qoq to Rs. 118.2 bn (EPS of Rs. 19.9), as lower EBITDA was offset by higher other income, lower finance cost and lower tax rate at 20.7%. RIL turned FCF positive for the first time since Q3FY13, with capex declining by 27% qoq to Rs. 140.2 bn (US\$2 bn). Reported net debt declined by Rs. 41 bn, excluding fiber/tower liabilities, would have reduced by a similar amount to Rs. 2.52 tn (US\$35 bn), assuming no change in working capital.
- RIL management indicated that petcoke gasification project is expected to be capitalized in Q4FY20. KIE reiterates BUY notwithstanding a bleak downstream outlook, as the company may benefit meaningfully from (1) plausible consolidation in telecom, (2) culmination of key transactions, (3) rising FCF trajectory and (4) sustained growth in the retail segment. Higher crude discounts, weaker Rupee and potential hike in ARPUs may mitigate lower downstream margins.
- KIE has modelled FY20-22E blended refining margins at US\$9.1/bbl, US\$11/bbl and US\$10.8/bbl. KIE expects petchem volumes to increase modestly to 20.4 mn tons by FY21-22E from 20.1 mn tons in FY19, led by higher utilization of expansion projects. KIE has assumed cumulative subscriber base to increase to a substantial 453 mn by FY22E with blended ARPU of Rs184/month including FTTH customers. KIE assumptions result in Rs. 971 bn of revenues and Rs. 488 bn of EBITDA with 50% margins.
- KIE has revised FY20-22E EPS by $\pm 1\%$, factoring in (1) lower petchem margins, (2) higher retail contribution, (3) slower FTTH rollout and (4) other minor changes. KIE's FV is Rs. 1,850, ascribing option value of Rs. 80 to consolidation in the telecom sector.

Note: The above is brief note on the company, based on the inputs of KIE research report dated 19th January & 11th March, 2020 which is available on our website at: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>.

Disclaimer: <http://bit.ly/2n5AxIE>