

Pick of the week



Reliance Industries Ltd.

Recommendation

Buy

Time Period

12 Months

Current Price

₹ 1,546

Target Price

₹ 1,725

Potential Upside

11.6%

Investment Argument

- KIE believes RIL will be a certain beneficiary of all plausible scenarios that may play out in the Indian telecom sector, except for a partial or full waiver of AGR liabilities by the government, which may reduce leverage specifically for the two incumbents.
- An increase in tariff will certainly augur well for improving economics of the telecom sector in the medium term, even as the basis (cost plus, RoCE-driven, etc.), quantum and sustainability of proposed tariff hikes remain uncertain.
- Large-scale commercialization of its digital ecosystem will make a more compelling business case and derive better value. Net debt has peaked with rising cash profits adequately covering for declining capex.
- RIL's earnings and fair valuation are leveraged to several business drivers. Company's EPS is expected to grow by 13% yoy in FY20E, ~20% yoy in FY21E and 15% yoy in FY22E. Similarly, ROE is expected at 10.9% in FY20E, 11.8% in FY21E and 12.1% in FY22E
- KIE's SOTP value is Rs.1,725 (However, tariff hike can add ~22-30% upside on three scenarios). Progress on deleveraging roadmap and accelerated rollout of FTTH/new commerce to look forward to.