

Reliance Industries Ltd. ₹ 1031**Refining Success !****Buy**

Jan 29, 2016

Company Background

Reliance Industries Limited (RIL) is an Indian conglomerate holding company headquartered in Mumbai. It owns businesses across India engaged in energy, petrochemicals, textiles, natural resources, retail and telecommunications. It is the 2nd most profitable company in India, the 2nd-largest publicly traded company in India by Marketcap and the 2nd largest company in India as measured by revenue. The company was ranked 114th on the Fortune Global 500 list of the world's biggest corporations in 2014. RIL contributes approximately 20% of India's total exports. The company's petrochemicals, refining, and oil and gas-related operations form the core of its business; other divisions of the company include cloth, retail business, telecommunications and special economic zone (SEZ) development. It is also the world's largest producer of polyester.

Key Highlights

- ➔ RIL has been featuring in the Global Fortune 500 companies list for the last 11 years and has a probability to continue the same growth momentum.
- ➔ A major chunk of revenues (nearly 75% plus) of RIL comes from Refining RIL has put forth some very impressive figures in refining business posted highest ever refining EBIT (up 17% QoQ, 98% YoY) as GRM surged 8% QoQ, 58% YoY and throughputs rose 5% QoQ, 2% YoY. Despite slump in oil price, management indicated that petcoke gasification and off-gas cracker projects remain highly viable and expect these projects to add USD 2.5bn to EBITDA.
- ➔ RIL has also entered into some long term contracts like supply contract for Basrah Heavy improving cover for heavy crude on long-term basis.
- ➔ User experience has been encouraging for RJIO's trial launch. It has substantially optimised its network and is currently testing and validating its service. Management highlighted that they should be commercially launching the full services shortly.
- ➔ Reliance Retail business is growing at an unprecedented pace it added a net total of 930 stores to further increase its reach in the underserved markets. A total of 0.9 mn sqft area was added in 2015. Reliance Retail operated 2,621 stores, covering an area of over 12.5 million square feet across 200 cities.

Key Financials

Year Ended 31 st	Mar 13	Mar 14	Mar 15
Revenue (INR mn)	36,83,320.0	39,91,660.0	33,74,930.0
Rev. growth (%)	9.58	8.37	(15.45)
EBITDA (INR mn)	3,87,850.0	3,98,380.0	4,00,742.7
Net profit (INR mn)	2,10,030.0	2,19,840.0	2,24,010.0
Shares outstanding (mn)	3,228.7	3,231.9	3,235.7
EPS (INR)	65.1	68.0	69.2
EPS growth (%)	6.18	4.57	1.78
P/E (x)	11.89	13.66	11.73
RONW (%)	12.31	11.72	11.01
ROCE (%)	8.72	8.19	7.57

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Info Codes

Reuters	: RELI.BO
Bloomberg	: RIL@IN
NSE	: RELIANCE
BSE	: 500325

Market Data

52 Wk Range (₹)	: 797 / 1090
Shares in Issue (mn)	: 3235.7
Mkt. Cap (₹ bn)	: 3352.9
BSE 2 Wk Avg Vol	: 571000

Share Holding Pattern (%)

Promoters	: 46.66
Public	: 53.34
Others	: 03.24

Investment Theme

Reliance Industries Ltd. is a diversified Conglomerate with business interest in Exploration & Production of Oil & Gas, Refining, Petrochem, Textile, Corporate Security, Retail and Telecommunication. It has 120+ subsidiaries further working in sectors like Lifesciences, Agriculture, Logistics, Solar, etc. The company derives its maximum revenues from refining and has built the world's largest refining hub at Jamnagar with scale, design, flexibility, level of automation and degree of integration heralded the way refineries of the future would be built. Fuels from this Jamnagar refinery are exported to several countries across the world. This complex refinery is future ready and can produce gasoline and diesel of any grade. Reliance has been beating various benchmarks in refining business for a long time and its current result has posted some highest ever figures in refining. We feel the momentum would grow in years to come.

Defining Refining !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 13	Mar 14	% Chg	Mar 15	% Chg
Total Sales + Excise	37,11,190.0	40,13,020.0	8.1	34,08,140.0	(15.1)
Other Income	80,230.0	89,900.0	12.1	83,690.0	(6.9)
Change in Stocks	33,170.0	(5,440.0)	(116.4)	(19,840.0)	264.7
Raw Material Con.	30,99,260.0	33,37,590.0	7.7	26,07,000.0	(21.9)
Employee Exp.	33,540.0	33,700.0	0.5	36,860.0	9.4
Indirect Taxes	1,21,050.0	1,22,300.0	1.0	1,32,760.0	8.6
Other Exp.	1,87,670.0	2,18,058.2	16.2	3,15,747.3	44.8
Operating Exp.	34,08,350.0	37,17,088.2	9.1	31,12,207.3	(16.3)
Operating Profit	3,02,840.0	2,95,931.8	(2.3)	2,95,932.7	0.0
Total Interest	30,360.0	32,060.0	5.6	24,360.0	(24.0)
Gross Profit	3,52,710.0	3,53,771.8	0.3	3,55,262.7	0.4
Net Dep.	89,870.0	75,591.8	(15.9)	63,762.7	(15.6)
Total Taxation	52,810.0	58,340.0	10.5	67,490.0	15.7
Net Profit/Loss	2,10,030.0	2,19,840.0	4.7	2,24,010.0	1.9

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 12	Mar 13	Mar 14	Mar 15
SOURCES OF FUNDS	2314170.0	2513930.0	2870600.0	3137970.0
Equity Share capital	32710.0	32290.0	32320.0	32360.0
Share Application Money	10.0	260.0	180.0	180.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	1596980.0	1757110.0	1938420.0	2129230.0
Long Term Loans	555480.0	681180.0	821450.0	965820.0
Short Term Loans	128990.0	43090.0	78230.0	10380.0
USES OF FUNDS	2314170.0	2513930.0	2870600.0	3137970.0
Gross Block	2054930.0	2131540.0	2225650.0	2360620.0
Less : Revaluation Reserves	31270.0	10550.0	0.0	0.0
Less : Accumulated Depreciation	917700.0	1034060.0	1131590.0	1214990.0
Net Block	1105960.0	1086930.0	1094060.0	1145630.0
Capital Work in Progress	77540.0	191160.0	417160.0	757530.0
Investments	540080.0	525090.0	860620.0	1125730.0
Current Assets	1197400.0	1372380.0	1305600.0	951750.0
Less : Current Liabilities	606810.0	661630.0	806840.0	842670.0
Total Net Current Assets	590590.0	710750.0	498760.0	109080.0
Misc. Expenses not writtenoff	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	390590.0	193650.0	382530.0	518990.0
Mkt Val. Quoted Investments	154190.0	339750.0	503200.0	622940.0
Contingent Liabilities	553673.7	557920.0	771620.0	806410.0
Dividend (%)	85.0	90.0	95.0	100.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 15	Jun 15	Sep 15	Dec 15
Net Sales	5,60,430.0	6,58,170.0	6,08,170.0	5,65,670.0
Cost Of Sales	4,74,140.0	5,65,100.0	5,09,840.0	4,62,950.0
Operating Profit	86,290.0	93,070.0	98,330.0	1,02,720.0
Other Income	21,330.0	18,180.0	16,170.0	22,890.0
Adjusted PBDIT	1,07,620.0	1,11,250.0	1,14,500.0	1,25,610.0
Financial Expenses	4,040.0	5,970.0	6,940.0	6,090.0
Depreciation	21,320.0	22,650.0	23,720.0	24,050.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	82,260.0	82,630.0	83,840.0	95,470.0
Tax Charges	19,830.0	19,450.0	18,230.0	23,290.0
Adjusted PAT	62,430.0	63,180.0	65,610.0	72,180.0
Non Recurring Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	62,430.0	63,180.0	65,610.0	72,180.0

52 Week Index Relative Percentage Appreciation



RIL vs SENSEX

About Reliance Jio

Reliance Jio Infocomm Limited (RJIL), a subsidiary of RIL, is setting up a pan-India telecom network to cater to the highly underserved Indian market, reliable high speed internet connectivity (4G LTE), rich communication services and various digital services in key domains, such as education, healthcare, security, financial services, government-citizen interfaces and entertainment. RJIL aims to provide anytime, anywhere access to innovative and empowering digital content, applications and services, thereby propelling India into global leadership in digital economy.

RJIL has made significant progress in building its 4G-LTE (Long Term Evolution) business, including physical network infrastructure, systems and processes, sales and distribution network, applications and services and content, among others. It is working with strategic partners who have committed significant resources, knowhow and global talent to support deployment and testing activities currently underway.

During the year, RJIL successfully acquired the right to use spectrum in 800 MHz band or 1800 MHz band or both in 13 key circles across India in the spectrum auction conducted by Department of Telecommunication (DoT), Govt. RJIL plans to provide seamless 4G services, using LTE technology in 800 MHz, 1800 MHz and 2300 MHz bands through an integrated ecosystem. With this new spectrum, in addition to the pan-India 2300 MHz spectrum, RJIL has spectrum in either 800 MHz or 1800 MHz or both in 20 out of total 22 circles in the country. This combined spectrum footprint across frequency bands provides significant network capacity and deep coverage.

In a Nutshell

RIL is probably the largest private sector enterprise which has risen to such high levels just from a humble beginning in 1957. The venture started by the visionary Dhirubhai Ambani has now transformed itself into a conglomerate with diverse interest in Exploration, Production of Oil & Gas, Refining, Petrochem, Textile, Corporate Security, Retail, Telecommunication. RIL's major business income is from the Refining Segment which generates upward of 75% of its revenues. The most important asset for this is RIL's refinery at Jamnagar is among the largest and most complex refining assets globally. The refinery's superior configuration gives RIL the ability to process a wide variety of crudes and meet differentiated and stringent product specifications. Additionally, RIL has significant flexibility to alter the product mix, thereby capturing opportunities arising due to the evolving market dynamics. Among the other segments two segments are upcoming one is the Retail and the other is Telecom. Overall India's retail business is projected to nearly double to \$ 1 trillion by 2020 from \$ 600 billion in 2015. The retail market is expected to grow by 12% in line with historical trends. Reliance Retail encompasses all verticals of Retail from the groceries to Fashion and Digital Products thus giving the consumer a single point availability of all. Reliance Brands has a portfolio of 40 brands that span across the entire spectrum of luxury, bridge to luxury, high-premium and high-street lifestyle space. The Telecom though in the nascent stage is one of its kind in India where a Company with no prior support in the sector plans to launch India's biggest Telecom Venture that too on a Pan India Basis. The growth of RIL henceforth will be driven by these 3 sectors.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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