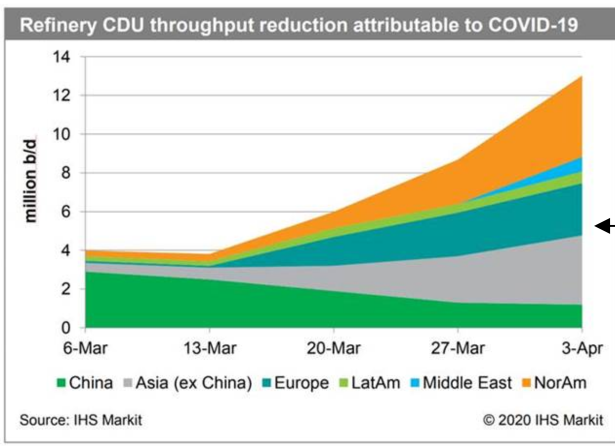
RIL Industries (CMP: 1190, Mkt Cap: Rs.7540 bn)

RIL Industries Update: We have tried to analyze the cash flows of RIL Ind taking impact of COVID-19 on various businesses & our working shows that RIL would still generate positive FCF and should emerge stronger after these uncertain times of COVID-19 gets over. Business wise commentary as under:

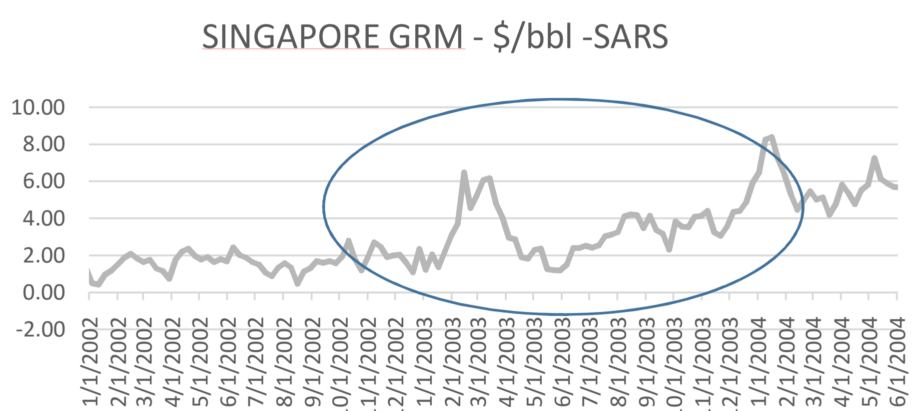
Refining: Global demand for crude oil has come down by around 20 mbpd which has also impacted the demand and cracks for petroleum products too. However,

- ✓ With the fall in crude prices, discounts on heavy crudes have increased by $7/bbl ,benefiting RIL by $2.1/bbl (30% ultra heavy crude).
- ✓ LNG Prices have fallen from $5/mmbtu in 4QF20 to $2.5/mmbtu now enables saving in fuel cost for refinery. (RIL consumes around 19 mmscmd of RLNG)
- ✓ Fuel and loss accounts for 9% for the refinery. With the fall in crude prices from $60/bbl to $30/bbl, Fuel and loss benefit will be $3/bbl ($30/bbl fall multiply by 9%).
- ✓ Cash cost or Opex for the refineries are $2.2/bbl which will enable closing down of simple refineries as they can't sustain at margins below cost benefitting complex refineries like RIL.



12 mb/d of refining capacity already closed down due to fall in demand

- ✓ **GRM Trend during SARS: It took 2 quarters for GRM to again rebound during SARS as shown below: GRM peaked in Jan 2003 before SARS at $5/bbl and then fell to $1/bbl when SARS came in. It rebounded to $8/bbl after 2 quarters when the impact of SARS got reduced.**



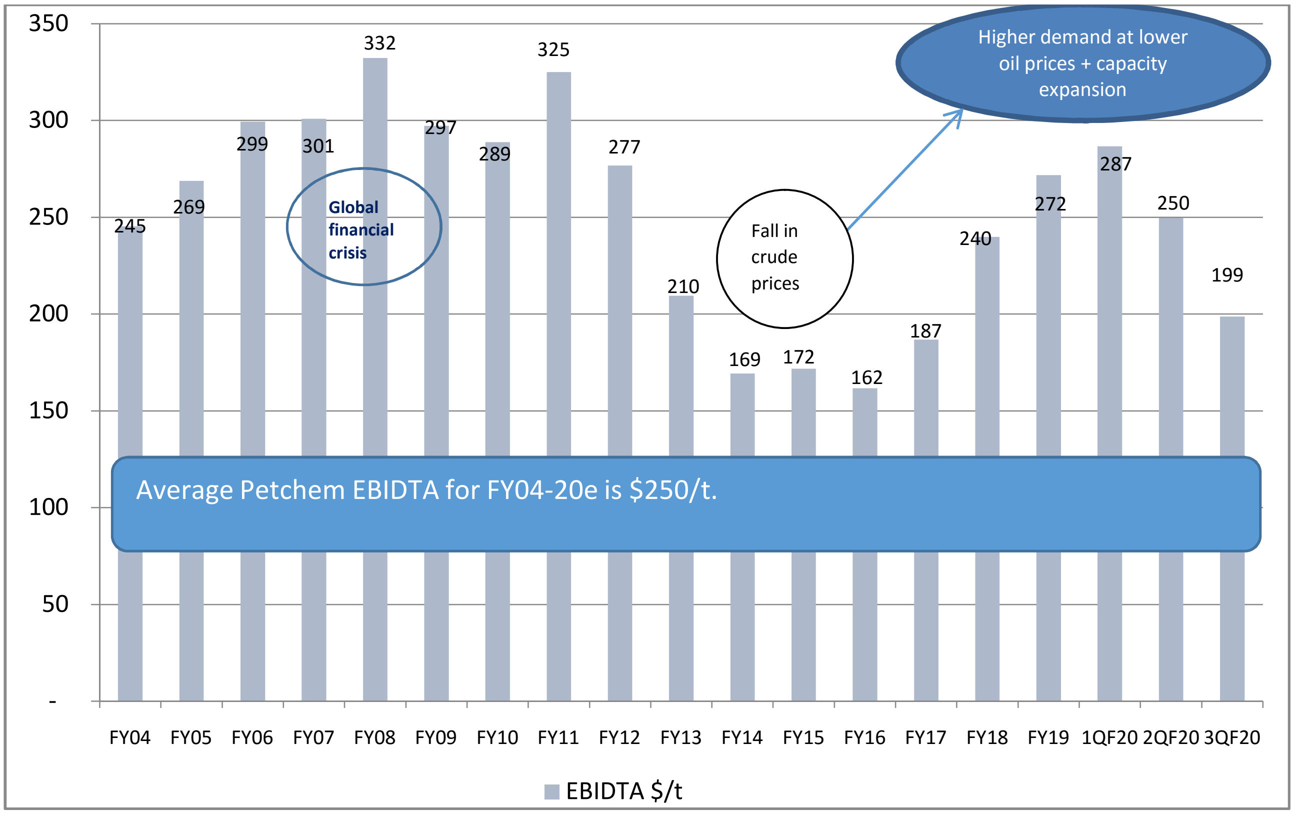
Theoretical GRM Calculation for RIL Ind:

Particulars	Units	Current
Reuters Singapore GRM	**$/bbl**	**(0.5)**
Dubai Crude	$/bbl	23.4
Arab Heavy Crude	$/bbl	20.7
Other Heavy Crude	$/bbl	16.5
Brent Crude	$/bbl	21.6
Gasoline	$/bbl	20.0
Gasoil	$/bbl	33.3
Jet/Kero	$/bbl	25.0
Naphtha	$/bbl	17.5
Propylene	$/bbl	50.0
Cracks Vs Dubai		
Gasoline	$/bbl	(3.4)
Gasoil	$/bbl	9.9
Jet/Kero	$/bbl	1.6
Naphtha	$/bbl	(5.9)
Propylene	$/bbl	26.6
Arab Heavy Crude	$/bbl	(2.7)
Other Heavy Crude	$/bbl	(6.9)
Brent Crude	$/bbl	(1.8)
Weightage Wise Margins		
Gasoline	$/bbl	(0.6)
Gasoil	$/bbl	4.3
Jet/Kero	$/bbl	0.1
Naphtha	$/bbl	(0.6)
Propylene	$/bbl	0.8
RIL Product GRM	$/bbl	3.9
Less:		
40% of Arab Heavy	$/bbl	(1.1)
30% of Other Heavy Crude	$/bbl	(2.1)
30% of Brent Crude	$/bbl	(0.5)
Less: Freight	**$/bbl**	**1.8**
Plus : LNG Benefit	**$/bbl**	**1.6**
RIL Theorotical GRM	**$/bbl**	**7.4**

Benefit of discount on heavy crude is $3.2/bbl for RIL . These compensates for the fall in Gasoline Cracks.

Petrochemicals: Average Petrochemical EBIDTA Margins over FY04-FY20e at $250/t. As an integrated player it tries to capture best of the value chain benefits and being on dual feedstock (Ethane and Naphtha) it can take advantage of lower feedstock cost and maximize Margins. Our understanding is RIL would be completely running its plant on Naphtha currently as ethane cost advantage is equal to fall in Naphtha.

RIL Petchem EBIDTA Margins ($/t) over last 15 Years.



Current Petrochemical Margin Trend: Improvement seen in March 2020 from Jan-Feb levels.

Particulars	Units	1QF20	2QF20	3QF20	Jan-20	Feb-20	Mar-20
PE-1.033*Ethylene	$/t	238	**115**	128	(0)	45	155
PE-Naphtha (simple Spreads)	$/t	520	**494**	363	309	334	482
PP-Naphtha	$/t	568	**577**	490	425	381	505
PVC-0.24*Ethylene-0.85*EDC	$/t	406	**429**	422	385	409	462
Px-Naphtha	**$/t**	**258**	**264**	**222**	**175**	**171**	**249**
PTA-0.67*Px	$/t	238	**210**	141	138	139	129
MEG-Naphtha	**$/t**	**63**	**89**	**61**	**38**	**36**	**156**
PFY-0.86 PTA-0.33 MEG	$/t	469	**264**	246	226	296	270
PET-0.84 PTA-0.34 MEG	$/t	230	**200**	237	118	146	165
Toulene-Naphtha	$/t	172	**225**	198	179	111	112
Benzene-Naphtha	$/t	151	**215**	171	176	174	164
Butadine-Naphtha	$/t	596	**696**	471	381	326	369
Ethylene-Naphtha	$/t	258	**352**	211	281	264	307

Average Naphtha Prices fall by around $220/t from Feb to Mar 2020 which has improved Margins.

Retail: Consumer Electronics forms 30% of sales of Reliance Retail. We assume Rs. 500 bn revenue for consumer electronics and with 7% EBIDTA Margins and 1 quarter sales impact, EBIDTA can be lower by Rs.10 bn for the Retail business for FY21e.

RJIO: Our Telecom analyst calculation shows that for FY21e average subscribers will be 43 cr and with average ARPU of Rs.150/sub/month, EBIDTA would be Rs.330 bn. (42% EBIDTA)

Profit and Loss statement:

Particular	Units	FY20e	FY21e Scenario 1	FY21e Scenario 2
Refining:				
Throughput	MMT	69.0	63.0	60.5
GRM	$/bbl	8.7	7.3	7.3
Opex	$/bbl	2.3	2.0	2.0
EBIDTA	$/bbl	6.4	5.3	5.3
Exch Rate	Rs/$	71.3	75.0	75.0
EBIDTA	**Rs/Cr**	**23,063**	**18,356**	**17,628**
Petchem:				
Sales	MMT	19.7	18.5	17.2
Gross Mar	$/t	364	340	340
Opex	$/t	140	140	140
EBIDTA	$/t	224	200	200
Exch Rate	Rs/$	70.9	75.0	75.0
EBIDTA	**Rs/Cr**	**31,200**	**27,750**	**25,800**
Retail EBIDTA	**Rs/Cr**	**9,800**	**9,000**	**9,000**
RJIO EBIDTA	**Rs/Cr**	**21,552**	**33,000**	**33,000**
Oil & Gas EBIDTA	**Rs/Cr**	**900**	**(400)**	**(400)**
Total EBIDTA	**Rs/Cr**	**86,515**	**87,706**	**85,028**
Interest	Rs/Cr	21,313	21,000	21,000
Depreciation	Rs/Cr	21,416	23,000	23,000
Other Inc	Rs/Cr	13,905	12,000	12,000
PBT	Rs/Cr	57,691	55,706	53,028
Tax	**Rs/Cr**	**14,423**	**13,927**	**13,257**
Current Tax	*Rs/Cr*	*8,654*	*8,356*	*7,954*
Deferred Tax	*Rs/Cr*	*5,769*	*5,571*	*5,303*
PAT	**Rs/Cr**	**43,268**	**41,780**	**39,771**
EPS	**Rs/sh**	**67.8**	**65.5**	**62.5**

Scenario 1: Assuming 1 month of production loss for Refining and Petchem for FY21e.

Scenario 2: Assuming 1.5 month of production loss for Refning and Petchem for FY21e

RIL GRM are theoretical GRM and it doesn't include any product discounts if any.

With fall in Naphtha prices,Average spreads for PX, PP, PE and MEG has improved by almost 20%. These 4 forms 58% of the RIL's petchem volumes. Our current calculation shows EBIDTA/t at $250/t however we have assumed $200/t for our calculation.

Cash Flow Statement:

Cash Flow	Units	FY20e	FY21e Scenario 1	FY21e Scenario 2
EBIDTA	**Rs/Cr**	**86,515**	**87,706**	**85,028**
Less:				
Capex-Normal	**Rs/Cr**	**70,000**	**15,000**	**15,000**
Capex-Maintainence	**Rs/Cr**		**7,500**	**7,500**
Tax-Current	**Rs/Cr**	**4,482**	**4,756**	**4,354**
Interest	**Rs/Cr**	**21,313**	**21,000**	**21,000**
Debt Repayment	**Rs/Cr**	**(15,000)**	**20,000**	**20,000**
Dividend Paid	**Rs/Cr**	**4,500**	**4,500**	**4,500**
Net Cash Flow	**Rs/Cr**	**1,220**	**14,950**	**12,674**

JIO capex has already slowed down to Rs.25 bn for Quarter.We believe that RIL will significantly slow down the capex for Refining and Petchem if any given the fall in crude prices and focus would be on balance sheet deleveraging.

RIL SOTP Valuation: Exhibit 1

Based on FY21e earnings- Worst Case				
Particulars	**EBIDTA**	**times**	**EV**	**Per Share**
Refinery	18,500	7.5	138,750	213
Petchem	27,750	7.5	208,125	320
E&P				25
Treasury Shares				120
Retail	9,000	12.0	108,000	166
Telecom	33,000	12.0	396,000	609
Net Debt			(300,000)	(462)
Resultant Target Price				**993**

Based on FY22e earnings- Our assumption: Exhibit 2				
Particulars	**EBIDTA**	**times**	**EV**	**Per Share**
Refinery	33,500	7.5	251,250	387
Petchem	34,000	7.5	255,000	392
E&P				25
Treasury Shares				120
Retail	14,000	15.0	210,000	323
Telecom	37,000	13.0	481,000	740
Net Debt			(250,000)	(385)
Resultant Target Price				**1,602**

Note: Our SOTP valuation Exhibit 1 factors in the impact of COVID-19 on petrochemical and Refining & cut in valuation multiples also.

Despite of the fall in the refining and petrochemical, company is still resilient in terms of generating positive FCF (after the payment of Interest, debt repayment of Rs. 200 bn , Capex and taxes) for FY21e.

We feel that stock will see strong buying if it approaches near its worst case scenario.