

January 18, 2019

Q3FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,238		1,238	
Sales (Rs. m)	4,002,022	4,284,726	4,002,022	4,284,726
% Chng.	-	-	-	-
EBITDA (Rs. m)	659,416	710,495	659,416	710,495
% Chng.	-	-	-	-
EPS (Rs.)	65.1	72.9	65.1	72.9
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	2,900	3,665	4,002	4,285
EBITDA (Rs. bn)	517	596	659	710
Margin (%)	17.8	16.3	16.5	16.6
PAT (Rs. bn)	336	366	413	462
EPS (Rs.)	53.1	57.8	65.1	72.9
Gr. (%)	(45.1)	8.9	12.7	12.0
DPS (Rs.)	16.0	17.0	18.0	19.0
Yield (%)	1.4	1.5	1.6	1.7
RoE (%)	11.1	11.5	12.7	13.8
RoCE (%)	10.5	11.4	12.6	13.3
EV/Sales (x)	2.6	2.2	2.0	1.9
EV/EBITDA (x)	14.7	13.7	12.4	11.5
PE (x)	21.4	19.6	17.4	15.6
P/BV (x)	2.3	2.2	2.2	2.1

Key Data

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52-W High / Low	Rs.1,329 / Rs.871
Sensex / Nifty	36,374 / 10,905
Market Cap	Rs.7,191bn/ \$ 101,241m
Shares Outstanding	6,339m
3M Avg. Daily Value	Rs.19363.71m

Shareholding Pattern (%)

Promoter's	47.44
Foreign	24.31
Domestic Institution	11.84
Public & Others	16.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.4	3.9	22.7
Relative	0.1	4.3	18.4

Avishek Datta

avishekdata@plindia.com | 91-22-66322254

In-line performance

Quick Pointers:

- Stellar petrochemicals performance make up for weak refining earnings
- Global refining margins to come off as net capacity addition of 2mbpd for CY19 will be higher than crude demand of 1.4mbpd.
- IMO 2020 will lift diesel spreads in FY21 as marine fuel sulfur norms are tightened. RIL with high complexity well placed to capitalize.

Strong performance: RIL reported highest quarterly profits in Q3FY19. Results were ahead of our estimates at PAT level; Standalone EBITDA of Rs145bn (PLe: Rs141.5bn), PAT of Rs89.2bn (PLe: Rs81.9bn). Healthy performance was supported by better than expected petrochemicals profitability even as refining profitability came in lower than expected. For Q3, GRMs were at US\$8.8/bbl (PLe: US\$8.5/bbl) due to weak gasoline spreads given high inventory and weak demand. However, gasoil spreads were healthy given low inventory. Q3 refining thruput were higher at 18MTPA.

Management is constructive about refining margins as diesel spreads are likely to get a boost from implementation of IMO 2020, which will lift diesel demand by >1mbpd on top of normal 0.6-0.8mbpd. RIL is well positioned to benefit given their high complexity. However, gasoline spreads are likely to be under pressure from high new refinery capacity addition of 2mbpd against demand growth of 1.4mbpd in CY19.

Petrochemical performance was stellar: For Q3FY19, petrochemicals EBIT were at Rs79.9bn supported by higher production volumes post stabilization of ROGC project and spreads. Feedstock and product optimization also supported earnings. Along with ROGC, PX and ethane capacities also contributed to profits. The petcoke gasification project is currently in stabilization phase, however, full commercialization timelines remain uncertain.

E&P performance remain muted: E&P EBIT for Q3FY19 was at Rs 1.2bn due to lower volumes. KGD6 gas volumes were at 1.9mmscmd while CBM volumes were at 1mmscmd. Management reiterated timelines for new E&P volumes with R cluster slated to start mid 2020 and Satellite field to start by mid CY22.

RJIO data usage drives earnings: RJIO EBITDA for Q3 was at Rs40bn as net addition were at 28mn (overall 280mn subscribers) and average data usage increased to 10.8GB (11GB in Q2FY19). Net capex for Q3 in RJIO were at Rs140bn. Rjio plans to demerge its tower and fibre assets into a separate SPV by Q4FY19 and they plan to sell the stake to long term investors. The company is also open to sharing its infrastructure network with competitors, details of which will be clarified post conclusion of demerger.

Maintain earnings, maintain Hold: We maintain our estimates for FY19/20E. We maintain our rating to ACCUMULATE as we await clarity on petcoke commercialisation.

Exhibit 1: Q3FY19 Result Overview (Rs mn)

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net sales	1,039,980	759,130	37.0	988,620	2,983,320	2,181,080	36.8
Inc/dec in stock	66,280	(31,620)	NA	(57,420)	(14,130)	(27,930)	NA
Raw materials - external purchases	681,650	528,790	28.9	765,400	2,128,980	1,441,860	47.7
Staff cost	14,560	11,420	27.5	14,930	44,290	34,940	26.8
Other expenditure	132,420	113,100	17.1	116,790	378,650	349,050	8.5
Total	894,910	621,690	43.9	839,700	2,537,790	1,797,920	41.2
Operating profit	145,070	137,440	5.6	148,920	445,530	383,160	16.3
Other income	24,560	16,240	51.2	20,120	65,360	55,990	16.7
Interest	24,050	10,940	119.8	24,170	69,600	31,960	117.8
Depreciation	25,860	24,750	4.5	27,450	80,930	69,010	17.3
PBT	119,720	117,990	1.5	117,420	360,360	338,180	6.6
Tax	30,440	33,450	(9.0)	28,830	94,290	89,030	5.9
<i>Tax rate (%)</i>	<i>25.4</i>	<i>28.3</i>		<i>24.6</i>	<i>26.2</i>	<i>26.3</i>	
Net profit	89,280	84,540	5.6	88,590	266,070	249,150	6.8

Source: Company, PL

Exhibit 2: Key data points

US\$/bbl	Q3FY18	Q4FY18	Q1FY19	Q1FY19	Q3FY19
Crude throughput (MTPA)	17.7	16.7	16.6	17.7	18.0
Reliance GRMs (\$/bbl)]	11.6	11.0	10.5	9.5	8.8
Singapore GRMs (\$/bbl)	7.3	7.0	6.0	6.1	4.3
Difference (\$/bbl)	4.3	4.0	4.5	3.4	4.5
KGD6 Gas- mmscmd	5.0	4.3	4.1	3.4	1.9
MA Oil- tonnes	23,709	22,625	18,967	22,625	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	2,900,420	3,664,901	4,002,022	4,284,726
YoY gr. (%)	19.8	26.4	9.2	7.1
Cost of Goods Sold	2,237,430	2,899,950	3,149,656	3,354,129
Gross Profit	662,990	764,951	852,366	930,596
Margin (%)	22.9	20.9	21.3	21.7
Employee Cost	-	-	-	-
Other Expenses	-	-	-	-
EBITDA	517,410	596,000	659,416	710,495
YoY gr. (%)	19.6	15.2	10.6	7.7
Margin (%)	17.8	16.3	16.5	16.6
Depreciation and Amortization	95,800	121,924	123,136	132,015
EBIT	421,610	474,076	536,280	578,480
Margin (%)	14.5	12.9	13.4	13.5
Net Interest	46,560	48,471	47,871	47,271
Other Income	82,200	79,071	84,408	85,879
Profit Before Tax	457,250	504,676	572,816	617,088
Margin (%)	15.8	13.8	14.3	14.4
Total Tax	121,130	138,553	160,269	154,985
Effective tax rate (%)	26.5	27.5	28.0	25.1
Profit after tax	336,120	366,123	412,548	462,103
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	336,120	366,123	412,548	462,103
YoY gr. (%)	7.0	8.9	12.7	12.0
Margin (%)	11.6	10.0	10.3	10.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	336,120	366,123	412,548	462,103
YoY gr. (%)	7.0	8.9	12.7	12.0
Margin (%)	11.6	10.0	10.3	10.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	336,120	366,123	412,548	462,103
Equity Shares O/s (m)	6,335	6,335	6,335	6,335
EPS (Rs)	53.1	57.8	65.1	72.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	3,045,810	4,320,365	4,645,367	4,870,371
Tangibles	3,045,810	4,320,365	4,645,367	4,870,371
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,127,020	1,645,464	1,768,600	1,900,614
Tangibles	1,127,020	1,645,464	1,768,600	1,900,614
Intangibles	-	-	-	-
Net fixed assets	1,918,790	2,674,901	2,876,767	2,969,756
Tangibles	1,918,790	2,674,901	2,876,767	2,969,756
Intangibles	-	-	-	-
Capital Work In Progress	994,830	121,000	100,000	100,000
Goodwill	90,850	-	-	-
Non-Current Investments	1,896,440	3,124,750	3,090,374	3,184,707
Net Deferred tax assets	(279,260)	(287,087)	(294,965)	(320,442)
Other Non-Current Assets	35,220	-	-	-
Current Assets				
Investments	532,770	-	-	-
Inventories	395,680	503,343	542,742	572,922
Trade receivables	104,600	150,612	164,467	176,085
Cash & Bank Balance	27,310	19,294	21,223	23,346
Other Current Assets	104,870	121,410	122,429	123,469
Total Assets	6,175,250	6,715,310	6,918,003	7,150,285
Equity				
Equity Share Capital	63,350	63,350	63,350	63,350
Other Equity	3,083,120	3,131,108	3,231,773	3,360,252
Total Network	3,146,470	3,194,458	3,295,123	3,423,602
Non-Current Liabilities				
Long Term borrowings	815,960	787,230	787,230	787,230
Provisions	22,050	157,214	164,772	172,363
Other non current liabilities	5,040	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	152,390	228,302	213,302	198,302
Trade payables	886,750	1,032,859	1,121,795	1,194,621
Other current liabilities	867,330	1,028,160	1,040,815	1,053,723
Total Equity & Liabilities	6,175,250	6,715,310	6,918,001	7,150,283

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	457,250	504,676	572,816	617,088
Add. Depreciation	95,800	121,924	123,136	132,015
Add. Interest	46,560	48,471	47,871	47,271
Less Financial Other Income	82,200	79,071	84,408	85,879
Add. Other	-	-	-	-
Op. profit before WC changes	599,610	675,071	743,823	796,375
Net Changes-WC	622,191	11,367	54,875	50,488
Direct tax	(121,130)	(138,553)	(160,269)	(154,985)
Net cash from Op. activities	1,100,671	547,886	638,430	691,877
Capital expenditures	48,440	(173,315)	(304,002)	(225,004)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	48,440	(173,315)	(304,002)	(225,004)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,942	(15,000)	(15,000)	(15,000)
Dividend paid	(115,550)	(122,772)	(129,994)	(137,216)
Interest paid	(46,560)	(48,471)	(47,871)	(47,271)
Others	(355,175)	(355,174)	(355,174)	(355,174)
Net cash from Fin. activities	(515,343)	(541,418)	(548,039)	(554,661)
Net change in cash	633,768	(166,846)	(213,612)	(87,788)
Free Cash Flow	1,149,111	374,571	334,428	466,873

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	53.1	57.8	65.1	72.9
CEPS	68.2	77.0	84.6	93.8
BVPS	496.7	504.3	520.1	540.4
FCF	181.4	59.1	52.8	73.7
DPS	16.0	17.0	18.0	19.0
Return Ratio(%)				
RoCE	10.5	11.4	12.6	13.3
ROIC	7.5	7.1	7.8	8.1
RoE	11.1	11.5	12.7	13.8
Balance Sheet				
Net Debt : Equity (x)	0.1	0.3	0.3	0.3
Net Working Capital (Days)	(49)	(38)	(38)	(38)
Valuation(x)				
PER	21.4	19.6	17.4	15.6
P/B	2.3	2.2	2.2	2.1
P/CEPS	77.0	87.0	95.5	105.9
EV/EBITDA	14.7	13.7	12.4	11.5
EV/Sales	2.6	2.2	2.0	1.9
Dividend Yield (%)	1.4	1.5	1.6	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

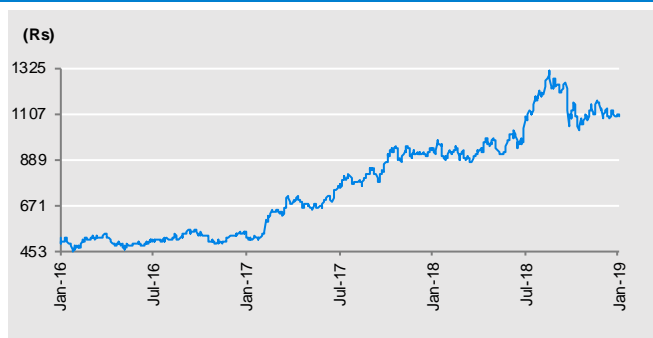
Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	872,270	954,720	988,620	1,039,980
YoY gr. (%)	16.9	35.5	37.8	37.0
Raw Material Expenses	606,720	658,940	707,980	747,930
Gross Profit	265,550	295,780	280,640	292,050
Margin (%)	30.4	31.0	28.4	28.1
EBITDA	134,250	151,540	148,920	145,070
YoY gr. (%)	(2.3)	12.9	-	-
Margin (%)	15.4	15.9	15.1	13.9
Depreciation / Depletion	26,790	27,620	27,450	25,860
EBIT	107,460	123,920	121,470	119,210
Margin (%)	12.3	13.0	12.3	11.5
Net Interest	14,600	21,380	24,170	24,050
Other Income	26,210	20,680	20,120	24,560
Profit before Tax	119,070	123,220	117,420	119,720
Margin (%)	13.7	12.9	11.9	11.5
Total Tax	32,100	35,020	28,830	30,440
Effective tax rate (%)	27.0	28.4	24.6	25.4
Profit after Tax	86,970	88,200	88,590	89,280
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	86,970	88,200	88,590	89,280
YoY gr. (%)	6.7	7.6	7.2	5.6
Margin (%)	10.0	9.2	9.0	8.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	86,970	88,200	88,590	89,280
YoY gr. (%)	6.7	7.6	7.2	5.6
Margin (%)	10.0	9.2	9.0	8.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	86,970	88,200	88,590	89,280
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Brent (US\$/bbl)	58	70	75	80
GRM(US\$/bbl)	12	10	13	13
Refining thruput (MTPA)	58	70	75	80
US\$/Rs	65	71	73	75

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	Accumulate	847	939
2	30-Apr-18	Accumulate	920	995
3	10-Jul-18	Accumulate	1,056	971
4	28-Jul-18	Accumulate	1,152	1,130
5	5-Oct-18	Accumulate	1,152	1,122
6	7-Jan-19	Accumulate	1,238	1,105

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	Accumulate	326	356
2	GAIL (India)	BUY	475	357
3	Hindustan Petroleum Corporation	Hold	219	250
4	I.G. Petrochemicals	BUY	700	398
5	Indian Oil Corporation	Accumulate	142	133
6	Indraprastha Gas	BUY	360	274
7	Mahanagar Gas	BUY	1,179	906
8	NOCIL	BUY	270	161
9	Oil & Natural Gas Corporation	BUY	223	148
10	Oil India	Accumulate	236	175
11	Petronet LNG	BUY	300	217
12	Reliance Industries	Accumulate	1,238	1,105

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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