

April 19, 2019

Q4FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,406		1,406	
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	FY19	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 (%)	1.2	1.2	1.3	1.4
RoE (%)	11.1	11.5	12.7	13.8
RoCE (%)	10.5	11.4	12.6	13.3
EV/Sales (x)	3.2	2.7	2.4	2.3
EV/EBITDA (x)	17.8	16.4	14.8	13.7
PE (x)	26.1	24.0	21.3	19.0
P/BV (x)	2.8	2.7	2.7	2.6

Key Data

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52-W High / Low	Rs.1,407 / Rs.907
Sensex / Nifty	39,140 / 11,753
Market Cap	Rs.8,786bn/ \$ 126,317m
Shares Outstanding	6,339m
3M Avg. Daily Value	Rs.25160.47m

Shareholding Pattern (%)

Promoter's	47.36
Foreign	23.93
Domestic Institution	12.39
Public & Others	16.31
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	20.4	47.8
Relative	(0.3)	7.0	29.9

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Muted Performance

Quick Pointers:

- Lower refining thrupt, weak GRMs and lower polymer margins drag standalone profitability.
- RIL profitability to get lift from higher GRMs (due to implementation of IMO2020) and commercialization of petcoke gasification project.
- Rjio asset monetization to help deleverage the balance sheet and create an asset light model.

Muted performance: RIL reported Q4FY19 standalone results with EBITDA of Rs137bn (PLe: Rs142bn) and PAT of Rs85.5bn (PLe: Rs84.9bn) respectively. During the quarter, both refining and petrochemicals profitability came in lower than our estimates. For Q4, GRMs were at US\$8.2/bbl (PLe: US\$8.4/bbl) due to weak gasoline spreads given high inventory and weak demand. However, gasoil spreads were healthy given low inventory. Q4 refining thrupt were also lower at 16MTPA (18MTPA in Q4) due to maintenance shutdown.

Management is constructive about refining margins as diesel spreads are likely to get a boost from implementation of IMO 2020, as ~3.5mbpd marine fuel Sulphur standards are likely to come down. 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 1.3mbpd.

Petrochemical profitability come off: For Q4FY19, petrochemicals EBIT were at Rs78.2bn (Rs79.9bn in Q3) due to weak polymer margins even as PX and downstream polyester margins were healthy. 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, and commercialization is likely in coming quarters.

E&P performance remain muted: E&P EBIT for Q4FY19 was at Rs 960mn due to lower volumes. KGD6 gas volumes were at 1.8mmscmd 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 –growth moderates: RJIO EBITDA for Q3 was at Rs43.3bn as net addition were at 26.6mn (overall 307mn subscribers) and average data usage increased to 10.9GB (10.8GB in Q3FY19). Net capex for Q4 in RJIO were at Rs215bn. Rjio has demerged its tower and fibre assets into a separate SPV and has transferred liabilities worth Rs1.07trn. accordingly, while the interest and depreciation charges are likely to come down, operating expenses will increase as Jio pays for the lease charges.

Maintain earnings, maintain ACCUMULATE: We maintain our estimates for FY19/20E. after a sharp run up, we maintain our rating to ACCUMULATE.

Analyst Meet Highlights

- Standalone EBIDTA impacted by lower GRMs (weak product spreads) and lower refining thruput (maintenance shutdown).
- Petrochemicals profitability also hit by lower volumes and muted spreads.
- Company confident of healthy diesel spreads post IMO 2020 implementation given potential replacement of 3.5mbpd marine fuel.
- Consolidated capex at Rs327bn in Q4; FY19 capex at Rs1,325bn.
- Petcoke gasification currently in stabilisation phase likely to support margins going ahead.
- Retail Q4 EBIT was at Rs17.2bn and company has over 10,400 outlets. Over 80% of volume is from core retail biz where margins are at 7% while connectivity and fuel retail margins are at ~1.5%. SSG for RIL's retail biz stands at over 25%. Total capital employed in retail at Rs250bn.

Exhibit 1: Q4FY19 Result Overview (Rs mn)

Y/e March	Q4FY19	Q4FY18	YoY gr. (%)	Q3FY19	FY19	FY18	YoY gr. (%)
Net sales	865,720	872,270	(0.8)	1,039,980	3,849,040	3,053,350	26.1
Inc/dec in stock	(18,810)	(4,390)	328.5	66,280	(32,940)	(32,320)	1.9
Raw materials - external purchases	606,790	611,110	(0.7)	681,650	2,735,770	2,052,970	33.3
Staff cost	14,050	12,460	12.8	14,560	58,340	47,400	23.1
Other expenditure	126,650	118,840	6.6	132,420	505,300	467,890	8.0
Total	728,680	738,020	(1.3)	894,910	3,266,470	2,535,940	28.8
Operating profit	137,040	134,250	2.1	145,070	582,570	517,410	12.6
Other income	28,830	26,210	10.0	24,560	94,190	82,200	14.6
Interest	27,910	14,600	91.2	24,050	97,510	46,560	109.4
Depreciation	24,650	26,790	(8.0)	25,860	105,580	95,800	10.2
PBT	113,310	119,070	(4.8)	119,720	473,670	457,250	3.6
Tax	27,750	32,100	(13.6)	30,440	122,040	121,130	0.8
Net profit	85,560	86,970	(1.6)	89,280	351,630	336,120	4.6

Source: Company, PL

Exhibit 2: Key data points

US\$/bbl	Q4FY18	Q1FY19	Q1FY19	Q3FY19	Q4FY19
Crude throughput (MTPA)	16.7	16.6	17.7	18.0	16.0
Reliance GRMs (\$/bbl)	11.0	10.5	9.5	8.8	8.2
Singapore GRMs (\$/bbl)	7.0	6.0	6.1	4.3	3.2
Difference (\$/bbl)	4.0	4.5	3.4	4.5	5.0
KGD6 Gas- mmscmd	4.3	4.1	3.4	1.9	1.8
MA Oil- tonnes	22,625	18,967	22,625		

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	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	FY19	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 Networkth	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	FY19	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

Quarterly Financials (Rs m)

Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	954,720	988,620	1,039,980	865,720
YoY gr. (%)	35.5	37.8	37.0	(0.8)
Raw Material Expenses	658,940	707,980	747,930	587,980
Gross Profit	295,780	280,640	292,050	277,740
Margin (%)	31.0	28.4	28.1	32.1
EBITDA	151,540	148,920	145,070	137,040
YoY gr. (%)	12.9	-	-	-
Margin (%)	15.9	15.1	13.9	15.8
Depreciation / Depletion	27,620	27,450	25,860	24,650
EBIT	123,920	121,470	119,210	112,390
Margin (%)	13.0	12.3	11.5	13.0
Net Interest	21,380	24,170	24,050	27,910
Other Income	20,680	20,120	24,560	28,830
Profit before Tax	123,220	117,420	119,720	113,310
Margin (%)	12.9	11.9	11.5	13.1
Total Tax	35,020	28,830	30,440	27,750
Effective tax rate (%)	28.4	24.6	25.4	24.5
Profit after Tax	88,200	88,590	89,280	85,560
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	88,200	88,590	89,280	85,560
YoY gr. (%)	7.6	7.2	5.6	(1.6)
Margin (%)	9.2	9.0	8.6	9.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	88,200	88,590	89,280	85,560
YoY gr. (%)	7.6	7.2	5.6	(1.6)
Margin (%)	9.2	9.0	8.6	9.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	88,200	88,590	89,280	85,560
Avg. Shares O/s (m)	-	-	-	-
EPS (Rs)	-	-	-	-

Source: Company Data, PL Research

Key Financial Metrics

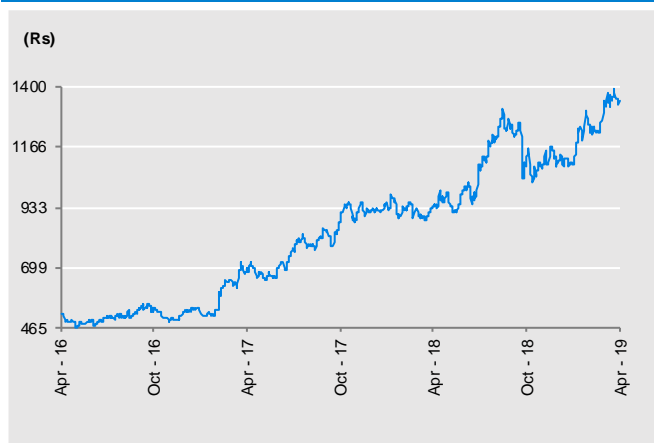
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	53.1	57.8	65.1	72.9
CEPS	68.2	77.0	84.6	93.8
BVPS	496.7	504.3	520.1	540.4
FCF	181.4	59.1	52.8	73.7
DPS	16.0	17.0	18.0	19.0
Return Ratio(%)				
RoCE	10.5	11.4	12.6	13.3
ROIC	7.5	7.1	7.8	8.1
RoE	11.1	11.5	12.7	13.8
Balance Sheet				
Net Debt : Equity (x)	0.1	0.3	0.3	0.3
Net Working Capital (Days)	(49)	(38)	(38)	(38)
Valuation(x)				
PER	26.1	24.0	21.3	19.0
P/B	2.8	2.7	2.7	2.6
P/CEPS	94.1	106.3	116.7	129.4
EV/EBITDA	17.8	16.4	14.8	13.7
EV/Sales	3.2	2.7	2.4	2.3
Dividend Yield (%)	1.2	1.2	1.3	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Brent (US\$/bbl)	58	70	75	80
GRM(US\$/bbl)	12	10	13	13
Refining thrupt (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	30-Apr-18	Accumulate	920	995
2	10-Jul-18	Accumulate	1,056	971
3	28-Jul-18	Accumulate	1,152	1,130
4	5-Oct-18	Accumulate	1,152	1,122
5	7-Jan-19	Accumulate	1,238	1,105
6	18-Jan-19	Accumulate	1,238	1,134
7	5-Apr-19	Accumulate	1,406	1,354

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Bharat Petroleum Corporation	BUY	499	358
2	GAIL (India)	BUY	482	349
3	Hindustan Petroleum Corporation	BUY	326	264
4	I.G. Petrochemicals	BUY	530	311
5	Indian Oil Corporation	Accumulate	207	158
6	Indraprastha Gas	BUY	530	305
7	Mahanagar Gas	BUY	1,179	1,002
8	NOCIL	BUY	252	141
9	Oil & Natural Gas Corporation	BUY	223	157
10	Oil India	Accumulate	236	180
11	Petronet LNG	BUY	306	239
12	Reliance Industries	Accumulate	1,406	1,354

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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