

Reliance Industries

O2C drags down earnings

Our ADD rating on Reliance Industries (RIL) with a price target of INR 3,350/sh is premised on (1) recovery in the O2C business; (2) EBITDA growth in the digital business, driven by improvement in ARPU, subscriber addition, and new revenue streams; and (3) potential for further value unlocking in the digital and retail businesses. RIL's consolidated Q2FY25 EBITDA stood at INR 391bn (-4.7% YoY, +0.8% QoQ), coming in ahead of our estimate, impacted by weakness in O2C and retail segments. The telecom business segment remained resilient and supported earnings. APAT at INR 193bn (-2.8% YoY; 11% QoQ) came in ahead of our estimates, owing to better-than-expected Telecom segment performance and higher Other Income.

- Oil & gas:** Revenue/EBITDA came in at INR 62/53bn, -6/+11% YoY and +1/2% QoQ. YoY decline was led by lower realization. The average KG D6 production for Q2 was at 28.5mmcmd, up 1% YoY and QoQ. The average gas realisation in Q2 was at USD 9.55/mmbtu (-9% YoY, +3% QoQ).
- RJPL:** Revenue improved to INR 371bn (+18% YoY, +7% QoQ) due to a 7% QoQ increase in ARPU. ARPU came in at INR 195.1 (+7% YoY). With a net reduction in subscribers by 10.9mn QoQ, the total customer base stands at 478.8mn, as of Q2. Jio has reached 148mn 5G subscribers and has achieved 2.8mn JioAirFiber connections as of Q2FY25. The company aims to connect 100mn homes through JioAirFiber.
- Reliance Retail (RR):** Net revenue declined 4% YoY to INR 665bn (HSIE: INR703bn). Core retail revenue is estimated to have clocked ~8.5% YoY to ~INR 477bn (HSIE: INR 517bn). Digital + New Commerce contribution has declined to 17% (vs 19% in Q2FY24) of core retail sales. EBITDA grew 1.2% YoY to INR 56.75bn (in-line). Retail EBITM expanded 30bps YoY to 6.4% (HSIE: 6.1%). RR added 464 stores in Q2, taking the store count to 18,946 and the retail area stood at 79.4mn sq. ft. Our SOTP-based Fair Value (attributable to minority shareholders) stands revised at INR 6.7tn (INR. 990/sh, on RIL share count). This implies a valuation of 23x Sep-26 EV/EBITDA + 4x Sep-26 EV/Sales for the New Commerce Biz.
- Debt:** RIL's Q2 consolidated net debt climbed up to INR 1,164bn (vs net debt of INR 1,123bn, as of Jun-24). Total capex incurred in Q2 stood at INR 340bn (-12% YoY, +18% QoQ).
- Valuation:** We have maintained our target price for RIL at INR 3,350/sh. We use EV/EBITDA to value O2C at Mar-26E EV/e, retail on peer benchmarked EV/e and E&P and Jio on DCF. The stock is currently trading at 10x Mar-26E EV/EBITDA and 20x Mar-26E EPS.

Financial summary – consolidated

Year Ending March (INR bn)	Q2 FY25	Q1 FY25	QoQ (%)	Q2 FY24	YoY (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	2,315	2,318	(0.1)	2,319	(0.2)	7,000	8,778	9,011	11,673	12,681
EBITDA	442	427	3.3	449	(1.6)	1,105	1,422	1,622	1,820	2,101
APAT	166	151	9.4	174	(4.8)	584	667	696	784	935
Diluted EPS (INR)	24.5	22.4	9.4	25.7	(4.8)	86	99	103	116	138
P/E (x)						31.8	27.8	26.7	23.7	19.9
EV / EBITDA (x)						18.9	14.8	13.0	11.3	9.7
RoE (%)						7.9	8.9	9.2	9.5	10.3

Source: Company, HSIE Research

ADD

CMP (as on 14 Oct 2024)	INR 2,745
Target Price	INR 3,350
NIFTY	25,128

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,350	INR 3,350
EPS change	FY25E 2.0%	FY26E 3.6%

KEY STOCK DATA

Bloomberg code	RELIANCE IN
No. of Shares (mn)	6,766
MCap (INR bn) / (\$ mn)	18,573/2,20,958
6m avg traded value (INR mn)	20,726
52 Week high / low	INR 3,218/2,220

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(14.0)	(6.4)	16.8
Relative (%)	(15.8)	(16.9)	(6.8)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	50.33	50.33
FIs & Local MFs	17.41	17.41
FPIs	21.87	21.87
Public & Others	10.40	10.40
Pledged Shares	0.00	0.00

Source: BSE

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Jay Gandhi

jay.gandhi@hdfcsec.com
+91-22-6171-7320

Dhawal Doshi

dhawal.doshi@hdfcsec.com
+91-22-6171-7361

Prasad Vadnere

prasad.vadnere@hdfcsec.com
+91-22-6171-7356