

The Juggernaut rolls on

Reliance Retail continues to outpace peers, albeit pace of growth has come off. Gross revenue grew 27% YoY; Core retail (Grocery/F&L/CDIT) grew ~35% YoY in 2Q as all key segments performed well. While the network blitz-scaling continues, more impressive is that SSSG remains healthy across its core (5-14%). Leverage manageable, but inching up (1x in FY19 from Zero-debt in FY17). Historically, capital intensity has remained high (Internal accruals funded only 50% of capital needs over FY14-19; That said, post two years of near-exponential growth, the scale achieved might just be enough to cover capital needs through internal accruals going forward. Expect RR to be FCFE positive by FY21E.

HIGHLIGHTS FOR THE QUARTER

- **Stock-up format gaining preference:** Grocery revenue grew 50% YoY (Rs. 81.5bn) as RR continued with its network blitz-scaling and added 84 Reliance Smart stores YoY (Stock-up format) on a base of 117 stores. Expect RR to largely expand its grocery offering via Reliance Smart given 1. Better store economics, 2. Current phase of retail evolution, 3. Cash flow position warrants profitable expansion. Juxtaposed with D-MART's 5 store additions/22% revenue growth, RR's performance seems rather commendable. SSSG at 14% remains healthy.
- **Fashion & Lifestyle getting future-ready:** RR's F&L segment grew 31.6% YoY to Rs. 31.2bn largely expansion-led as the company added 266 stores (on a base of 539) YoY. Bulk of the store additions are in its flagship value fashion format – Reliance Trends. SSSG remained tepid at 5% in 2Q. Interestingly, RR in a short span has outpaced peers in future-proofing the business by building its omni-channel capabilities. 635/800+ Trends+Project Eve stores now have digital kiosks for online-to-offline sales.

- **CDIT growth cooling off:** While still healthy, CDIT growth has cooled off (28% YoY in 2Q) since the FY19 Jio phone launch. We reckon this may be due moderating off-take of JIO phones/devices. SSSG came in at 12% for 2Q.
- **Margin levers limited!** While RR enjoys best-in-class margins across all categories given its unparalleled scale. Benefits hereon seem limited as 1. Competitive intensity increases in CDIT (biggest EBITDA contributor), 2. Omni-investments increase cost of doing biz, 3. Expansion incrementally is lease-driven, implying rising rent bills. We build in a modest 60bp EBITDA margin expansion over FY19-22E.

STANCE

RR's near term growth visibility remains high esp. in grocery and F&L as 1. it seems past its "rummaging through formats phase" and 2. the addressable market is massive. However, CDIT growth (biggest segment) should cool off as JIO phone sales moderate. We build in revenue/EBITDA/PAT CAGR of 21/26/30% over FY19-22E and assign an SOTP-based fair value of Rs. 2tn (EV), implying 18x Sept-21 EV/EBITDA (Rs. 300/sh) on RIL share count.

Financial Summary

(Rs mn)	FY19	FY20E	FY21E	FY22E
Net Sales	1,165,693	1,446,482	1,738,189	2,063,524
EBITDA	60,188	79,533	96,979	117,909
APAT	32,363	45,500	55,381	68,273
FV/E (x)	53.9	38.3	31.5	25.5
EV/EBITDA (x)	31.7	24.0	19.7	16.2
ROE (%)	28.7	30.0	27.5	25.9
RoIC (%)	20.8	20.0	18.7	18.1
ROCE (%)	19.3	19.0	18.6	18.3

Source: Company, HDFC sec Inst Research

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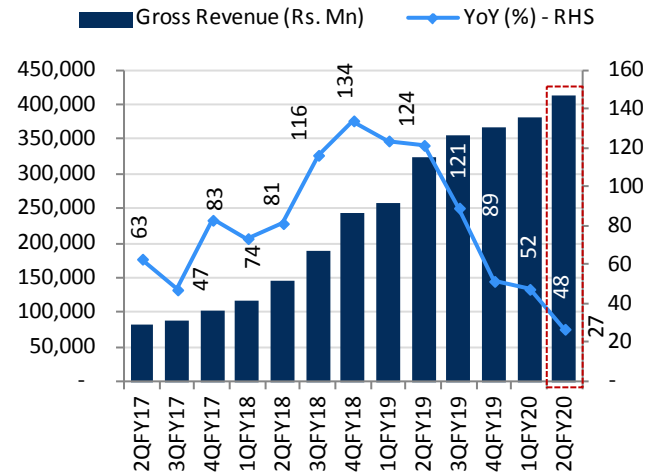
Quarterly snapshot

	2QFY20	2QFY19	1QFY20	YoY (%)	QoQ (%)
Revenue	369,720	288,320	342,370	28.2	8.0
-Grocery	81,470	54,260	76,330	50.1	6.7
-Consumer Electronics	134,590	105,320	106,180	27.8	26.8
-Fashion & Lifestyle	31,190	23,700	32,010	31.6	(2.6)
EBITDA	23,220	13,920	20,490	66.8	13.3
<i>EBITDA margin (%)</i>	6.3	4.8	6.0	145 bps	30 bps
EBIT	20,350	12,440	17,770	63.6	14.5
<i>EBIT margin (%)</i>	5.5	4.3	5.2	119 bps	31 bps
Core Retail EBITDA	19,423	11,416	17,110	70.1	13.5
CR EBITDA margin (%)*	5.3	4.0	5.0	129 bps	26 bps
Assets	392,500	316,910	341,510	23.9	14.9
Liabilities	244,250	190,810	243,260	28.0	0.4
Capital Employed	148,250	126,100	98,250	17.6	50.9
Pre-tax RoCE	8.3	6.5	7.3	181 bps	103 bps

Source: Company, HDFC sec Inst Research

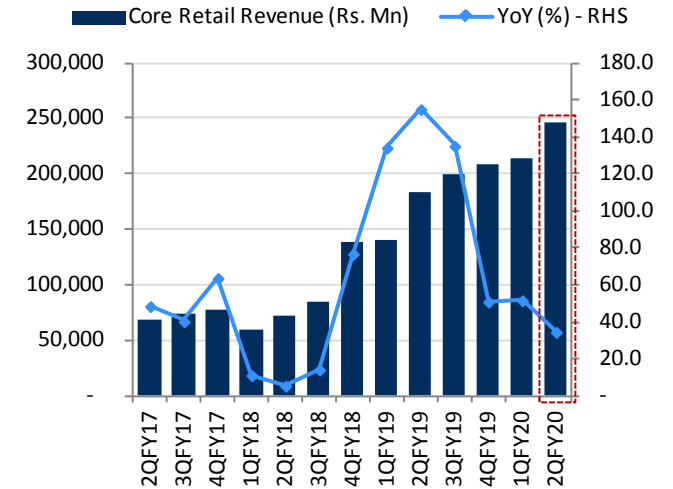
Story in charts

Gross revenue grew 27% YoY to Rs. 412bn



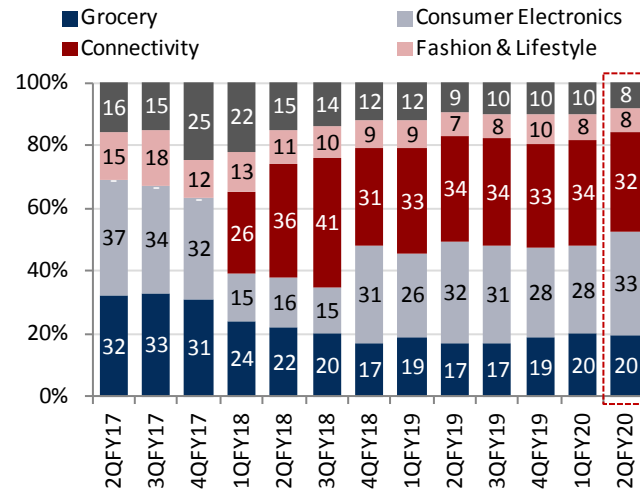
Source: Company, HDFC sec Inst Research

Core Retail revenue grew 35% YoY



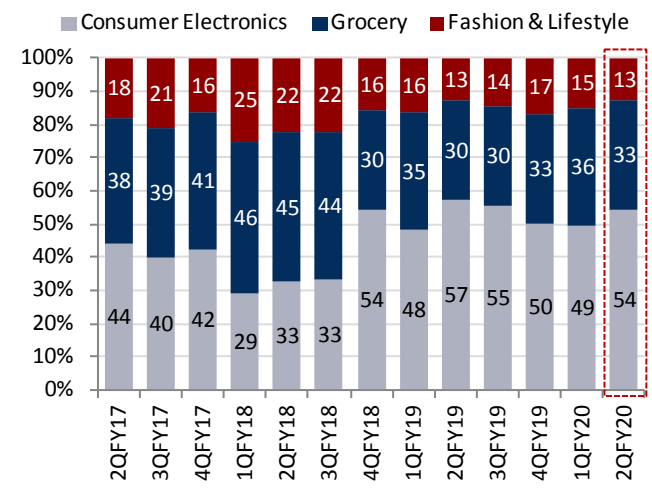
Source: Company, HDFC sec Inst Research

Retail revenue mix (%)



Source: Company, HDFC sec Inst Research

Core Retail revenue mix (%)

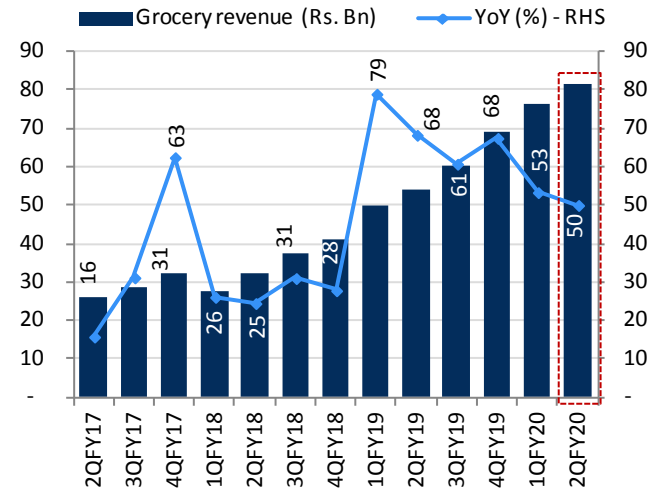


Source: Company, HDFC sec Inst Research

Core Retail accounted for ~58/84% of retail revenue/EBITDA in 1HFY20

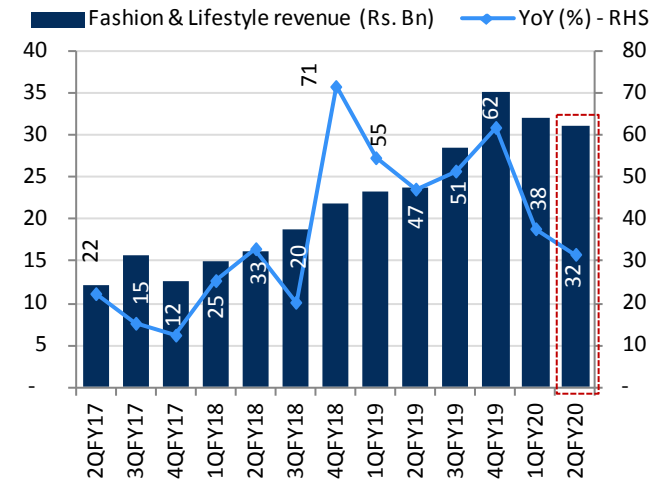
Consumer Electronics accounts for ~54% of Core Retail revenue

Grocery revenue grew 50% YoY to Rs. 81.5bn



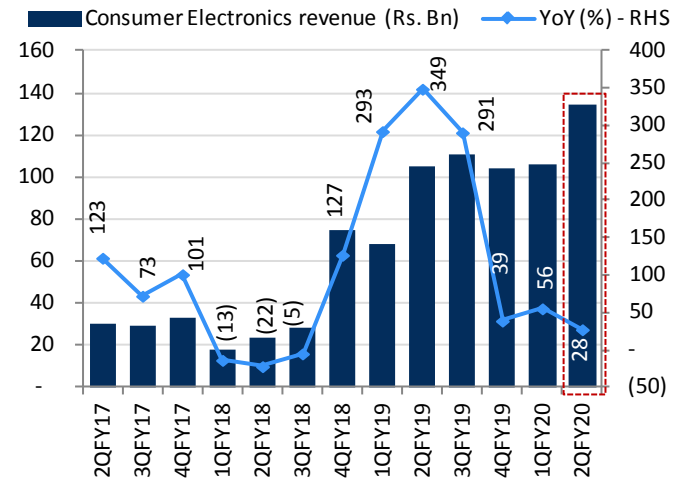
Source: Company, HDFC sec Inst Research

F&L revenue grew 31.6% YoY to Rs. 31.2bn



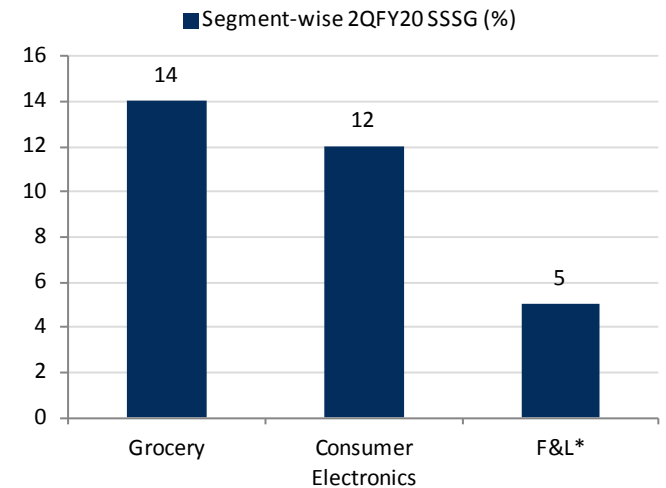
Source: Company, HDFC sec Inst Research

CE revenue grew 28% YoY to Rs. 134.6bn



Source: Company, HDFC sec Inst Research

Segment-wise SSSG in 2QFY20



Source: Company, HDFC sec Inst Research

By FY20, we estimate RR to account for 13-15% of the Rs. 3.4tn consumer electronics market contending with the two online biggies in this standard product category

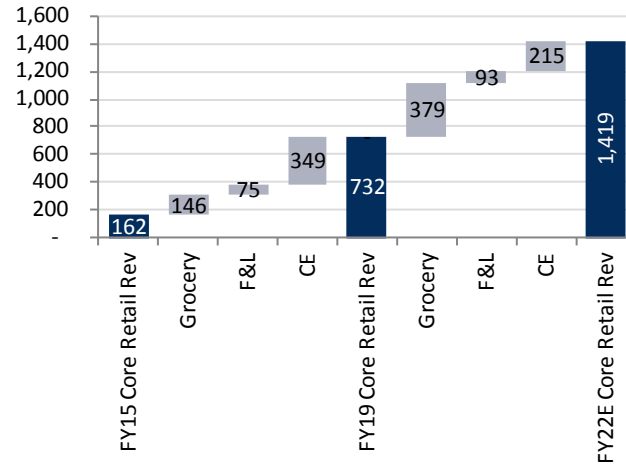
Hence, while RR will continue to dominate, we reckon capital assigned to F&G will increase at the margin – as it's a bigger and less penetrated category

Margin profile has shown consistent improvement over the quarters. That said, from hereon, benefits seem limited as

- 1. Competitive intensity increases in CDIT (biggest EBITDA contributor),**
- 2. Omni-investments increase cost of doing biz,**
- 3. Expansion incrementally is lease-driven, implying rising rent bills. We build in a modest 80bp EBITDA margin expansion over FY19-22E.**

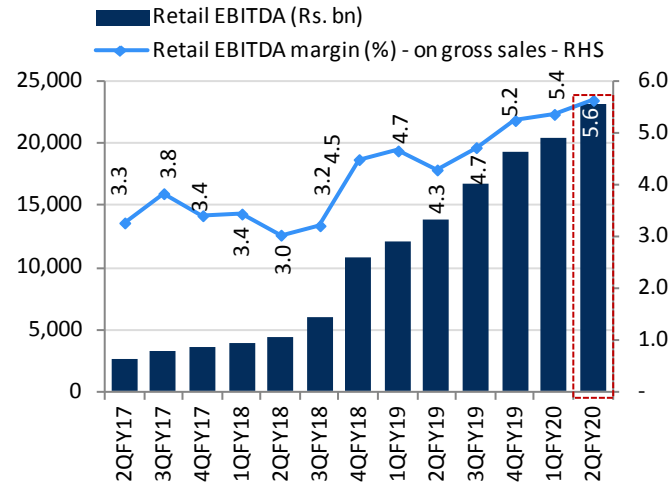
Rent bills up 3.6x YoY to Rs. 28.4bn (2.8% of sales vs 1.2% in FY18)

FY19-22E, Grocery to be the growth anchor in Core Retail, Consumer Electronics to cool off



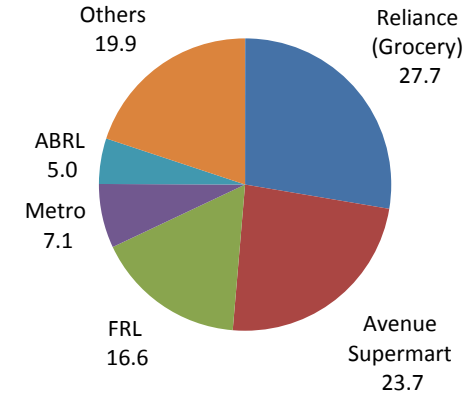
Source: Company, HDFC sec Inst Research

EBITDA grew 67% YoY; margin up 145bp YoY



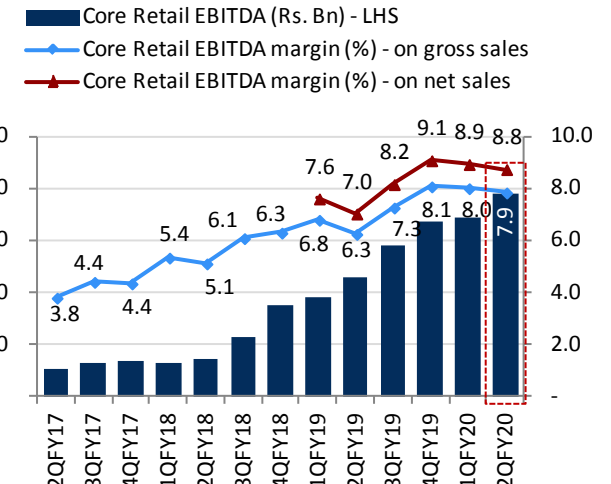
Source: Company, HDFC sec Inst Research

Reliance Retail now the biggest in grocery too (Revenue Market share)



Source: Company, HDFC sec Inst Research

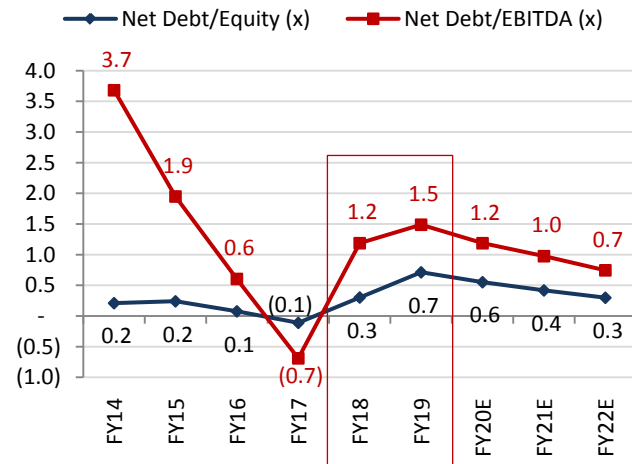
Core EBITDA grew 69% YoY; margin up 127bp



Source: Company, HDFC sec Inst Research

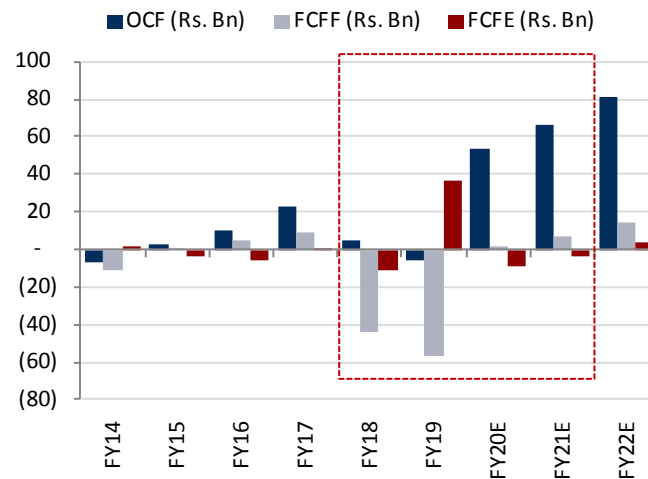
Leverage seems to have peaked out after 2 years of near exponential growth for RR. This could come off as operating scale now large enough to cover capital needs through internal accrual

Net/Debt seems to have peaked out



Source: Company, HDFC sec Inst Research

RR to be FCFE +ve by FY21

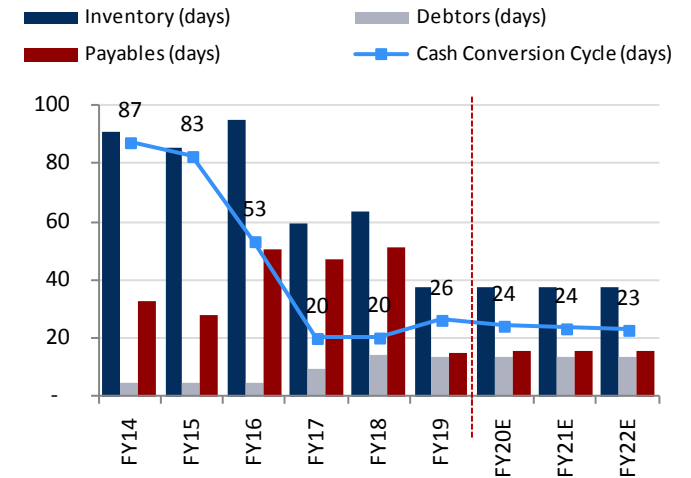


Source: Company, HDFC sec Inst Research

As scale-led OCF build-up happens over the next 1-2 years, RR should hit positive FCFE

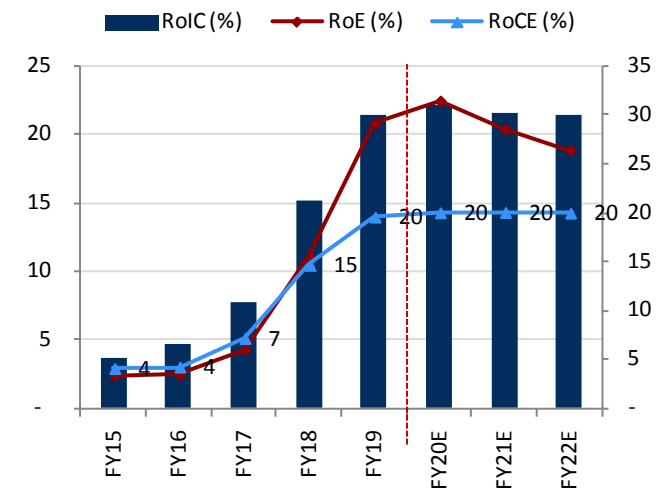
Return profile to remain steady

Working capital quality improving; payables have come off, expected to remain stable



Source: Company, HDFC sec Inst Research

Return profile to largely remain steady



Source: Company, HDFC sec Inst Research

RRVL – SOTP Valuation

	Revenue (Rs. Mn)	Sept-21 EBITDA (Rs. Mn)	Target EV/EBITDA (x)	EV (Rs. Mn)	Comments
Grocery	457,258	36,776	22	801,721	Avenue trading at 30x EV/EBITDA, Our target multiple for Avenue is ~24x. Valuing Reliance's Grocery biz at ~10% discount to Avenue
F&L	167,415	29,837	22	656,423	@ par with market leader ABFRL (Closest competitor)
Consumer Electronics	540,362	33,879	15	508,186	Great Franchise but category at risk of increasingly moving online
Connectivity	620,529	10,053	3	30,158	Commodity biz. Just a master distributor
Petro Retail	159,154	1,491	3	4,473	Commodity biz
Total	1,944,718	112,036	17.9	2,000,961	
Net Debt				98,754	
Equity Value (Rs. Mn)				1,902,207	
Per Share (Rs.)				300	
Core Retail		100,493	19.6	1,966,330	

Source: Company, HDFC sec Inst Research

Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	621,616	1,165,693	1,446,482	1,738,189	2,063,524
Growth (%)	86.5	87.5	24.1	20.2	18.7
Material Expenses	544,196	989,615	1,227,267	1,473,897	1,748,734
Employee Expense	8,296	10,258	12,006	12,689	14,032
A&P Expense	7,413	32,639	42,671	53,884	67,065
Other selling and distribution Expense	15,165	28,326	35,150	42,238	50,144
Other Expenses	21,888	42,843	46,884	54,316	60,643
EBITDA	24,658	62,011	82,504	101,165	122,907
EBITDA Growth (%)	108.3	151.5	33.0	22.6	21.5
EBITDA Margin (%)	4.0	5.3	5.7	5.8	6.0
Depreciation	4,646	6,894	10,823	14,878	19,884
EBIT	20,013	55,116	71,681	86,287	103,024
Other Income (Including EO Items)	467	1,894	3,146	2,889	3,142
Interest	1,004	6,758	10,758	10,758	10,758
PBT	19,475	50,252	64,069	78,418	95,407
Total Tax	6,536	17,538	16,126	19,738	24,014
PAT before share of associate earnings	12,939	32,714	47,943	58,680	71,393
Share of associate earnings	237	261	287	316	348
RPAT	13,177	32,975	48,230	58,996	71,741
Exceptional Gain/(loss)	-	-	-	-	-
Adjusted PAT	13,177	32,975	48,230	58,996	71,741
APAT Growth (%)	207.4	150.2	46.3	22.3	21.6
Adjusted EPS (Rs)	2.2	5.5	8.0	9.8	12.0
EPS Growth (%)	207.4	150.2	46.3	22.3	21.6

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	60,000	60,000	60,000	60,000	60,000
Reserves	36,867	69,581	117,524	176,204	247,597
Total Shareholders Funds	96,867	129,581	177,524	236,204	307,597
Minority Interest	239	239	239	239	239
Long Term Debt	-	-	-	-	-
Short Term Debt	34,480	134,480	134,480	134,480	134,480
Total Debt	34,480	134,480	134,480	134,480	134,480
Net Deferred Taxes	(6,801)	(6,801)	(6,801)	(6,801)	(6,801)
Other Non-current Liabilities & Provns	-	-	-	-	-
TOTAL SOURCES OF FUNDS	124,786	257,499	305,442	364,122	435,515
APPLICATION OF FUNDS					
Net Block	34,362	75,844	117,094	161,314	207,464
CWIP	41,635	44,135	44,135	44,135	44,135
Other Non-current Assets	8,877	10,877	10,877	10,877	10,877
Total Non-current Assets	84,874	130,856	172,106	216,326	262,476
Inventories	108,223	119,911	148,795	178,802	212,268
Debtors	24,459	43,753	54,293	63,337	75,191
Other Current Assets	25,575	35,209	37,648	40,478	42,401
Cash & Equivalents	5,195	42,146	36,508	35,727	42,822
Total Current Assets	163,452	241,019	277,243	318,344	372,682
Creditors	87,099	46,764	61,991	74,493	88,436
Other Current Liabilities & Provns	36,441	67,612	81,916	96,055	111,207
Total Current Liabilities	123,540	114,376	143,908	170,548	199,643
Net Current Assets	39,912	126,644	133,336	147,796	173,040
TOTAL APPLICATION OF FUNDS	124,786	257,499	305,442	364,122	435,515

Source: Company, HDFC sec Inst Research

Cash Flow Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	19,476	50,252	64,069	78,418	95,407
Non-operating & EO Items	1,021	(1,894)	(3,146)	(2,889)	(3,142)
Interest Expenses	1,004	6,758	10,758	10,758	10,758
Depreciation	4,646	6,894	10,823	14,878	19,884
Working Capital Change	(16,063)	(49,782)	(12,330)	(15,241)	(18,149)
Tax Paid	(4,929)	(17,538)	(16,126)	(19,738)	(24,014)
OPERATING CASH FLOW (a)	5,155	(5,309)	54,048	66,186	80,744
Capex	(49,336)	(50,876)	(52,073)	(59,098)	(66,033)
Free Cash Flow (FCF)	(44,180)	(56,185)	1,975	7,088	14,711
Investments	-	(32,399)	-	-	-
Non-operating Income	62	1,894	3,146	2,889	3,142
INVESTING CASH FLOW (b)	(49,274)	(81,382)	(48,927)	(56,209)	(62,891)
Debt Issuance/(Repaid)	33,262	93,242	(10,758)	(10,758)	(10,758)
FCFE	(10,918)	37,057	(8,784)	(3,670)	3,953
Share Capital Issuance	10,485	-	-	-	-
Dividend	-	-	-	-	-
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	43,747	93,242	(10,758)	(10,758)	(10,758)
NET CASH FLOW (a+b+c)	(371)	6,551	(5,638)	(781)	7,095
EO Items, Others	1	1	1	1	1
Closing Cash & Equivalents	2,531	9,083	3,445	2,664	9,759

Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	12.5	15.1	15.2	15.2	15.3
EBITDA Margin	4.0	5.3	5.7	5.8	6.0
EBIT Margin	3.2	4.7	5.0	5.0	5.0
APAT Margin	2.1	2.8	3.3	3.4	3.5
RoE	15.5	29.1	31.4	28.5	26.4
RoIC (or Core RoCE)	15.1	21.4	22.2	21.6	21.4
RoCE	14.6	19.6	20.0	20.0	20.0
EFFICIENCY					
Tax Rate (%)	33.6	34.9	25.2	25.2	25.2
Fixed Asset Turnover (x)	11.1	11.2	9.2	8.1	7.3
Inventory (days)	63.5	37.5	37.5	37.5	37.5
Debtors (days)	14.4	13.7	13.7	13.3	13.3
Other Current Assets (days)	15.0	11.0	9.5	8.5	7.5
Payables (days)	51.1	14.6	15.6	15.6	15.6
Other Current Liab & Provns (days)	21.4	21.2	20.7	20.2	19.7
Cash Conversion Cycle (days)	20.4	26.5	24.4	23.5	23.0
Net D/E (x)	0.3	0.7	0.6	0.4	0.3
Interest Coverage (x)	19.9	8.2	6.7	8.0	9.6
PER SHARE DATA (Rs)					
EPS	2.2	5.5	8.0	9.8	12.0
CEPS	3.0	6.6	9.8	12.3	15.3
Dividend	-	-	-	-	-
Book Value	16.1	21.6	29.6	39.4	51.3
VALUATION					
P/E (x)	144.4	57.7	39.4	32.2	26.5
P/BV (x)	19.6	14.7	10.7	8.1	6.2
EV/EBITDA (x)	81.1	32.3	24.3	19.8	16.3
EV/Revenues (x)	3.2	1.7	1.4	1.2	1.0
OCF/EV (%)	0.3	(0.3)	2.7	3.3	4.0
FCF/EV (%)	(2.2)	(2.8)	0.1	0.4	0.7
FCFE/Mkt Cap (%)	(0.6)	1.9	(0.5)	(0.2)	0.2

Source: Company, HDFC sec Inst Research

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