



Presents

# Reliance Retail Limited

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## **Indian Retailing:**

Indian retailing is a rapidly growing industry, amounting to nearly 10% of the overall GDP. It has a potential market of nearly a trillion dollars. The point really is on the share of unorganized sector in Indian retailing, nearly 90% of the market. Nevertheless, the trend is shifting more towards the ‘Organized Retail’ and ‘E-commerce’. The modern retailing is expected to grow at a CAGR of 20% and the traditional retailing at 10% per annum in the coming years[1]. The e-commerce is set to grow at an even faster rate. Therefore, the potential for players like Reliance Retail, which spreads its wings through most of the consumer space, is huge. Furthermore, with the organized sector expanding into rural areas, the opportunities are huge. With the changing aspirations and preferences, consumers are moving towards the modern retail shops, in turn prioritizing quality.

## **Reliance Retail:**

The Mukesh Ambani led ‘Reliance Retail’ is the largest retailer in India with a pan-India presence. There are 10,644 stores across 6700 towns and cities in India. Reliance Retail is looking to expand to tier-3 and tier-4 markets.

Reliance Retail has adopted a multi-prong strategy and operates a chain of neighborhood stores, supermarkets, wholesale cash & carry stores, specialty stores, and online stores and has democratized access to a variety of products and services across diverse segments for Indian consumers.

It has started its operations in 2006 and branched into various divisions of the consumer space.

- **Reliance Trends** : Clothing
- **Reliance Fresh** : Food and Groceries
- **Reliance Digital**: Consumer Electronics (TV sets, mobiles, tablets, washing machine, etc.)
- **Reliance Footprint**: Footwear
- **Reliance Market**: A wholesale cash and carry store chains for supporting the local kirana shops.
- **Reliance Jewels**: Jewellery.
- **AJIO**: An e-commerce platform for clothing.
- **Reliance Mall** : It houses all the divisions of Retail together.

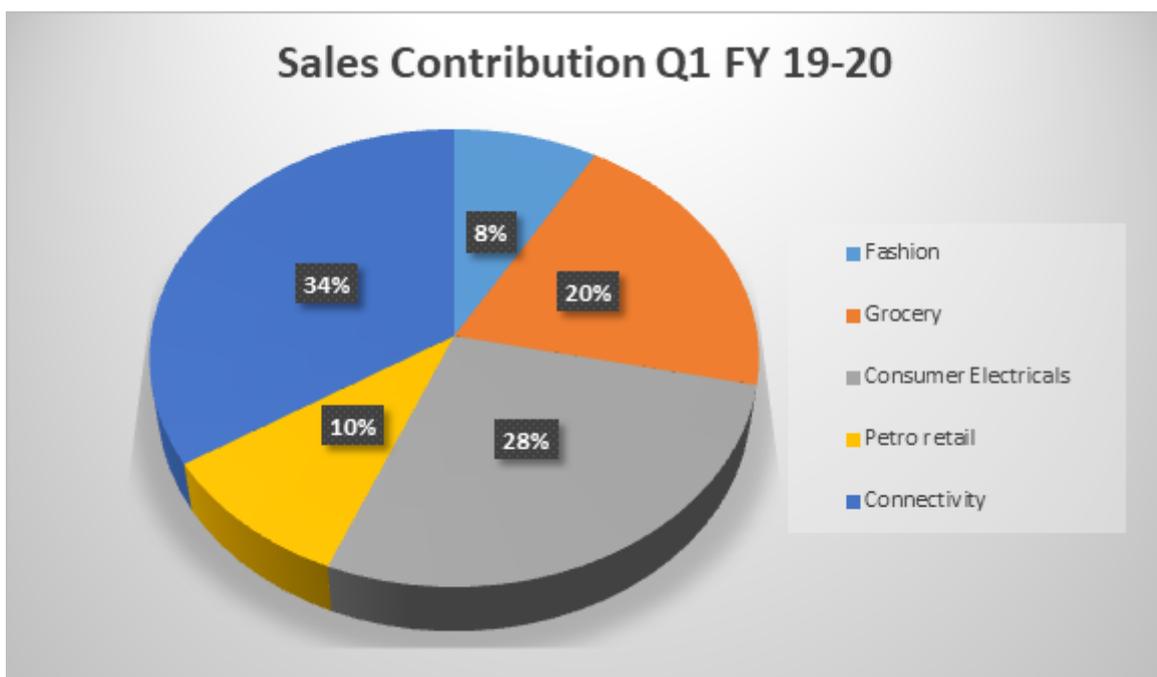
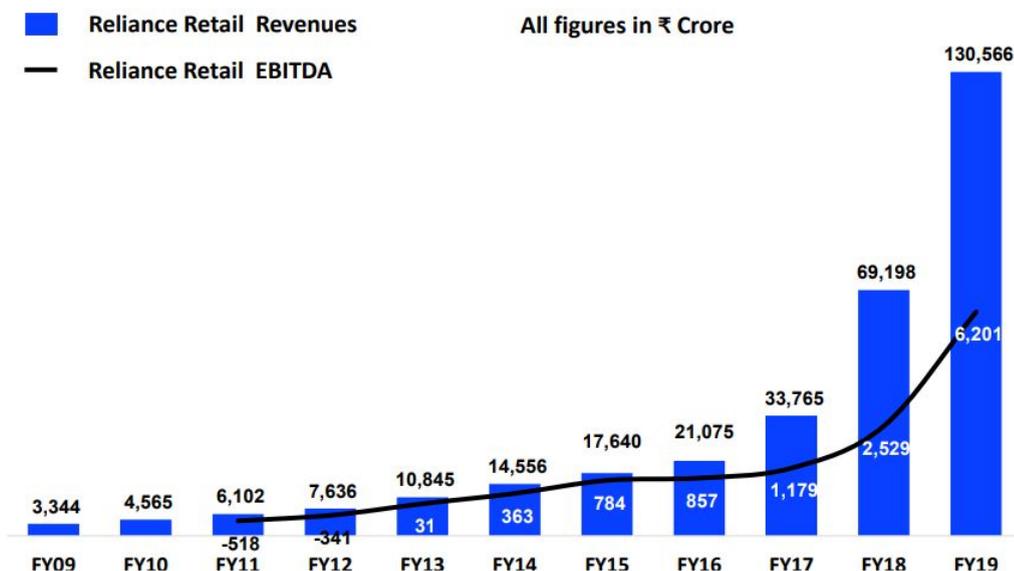


Fig.1

**Fig.1** shows that there is no sector, which has excessive contribution to the sales, which in turn leads to diversification amongst the different sectors. It is to say ‘**Reliance Retail**’ is focusing on most of the needs of consumers, be it in modern retailing (Trends, Digital, Jewels and Footprint) or wholesale distribution. It is aiming at the ‘urban family’ of India, the youngsters and even the unorganized sector (Reliance Market). For example, a modern family gets its groceries from Fresh, washing machine from Digital, clothes from Trends and so on.

## Reliance Retail Journey



- The company has shown Revenue CAGR of 55% in the last 5 years.
- The company has shown EBITDA CAGR of 76% in the last 5 years

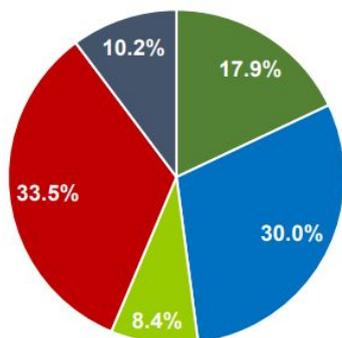
## FY19 Performance across the Verticals



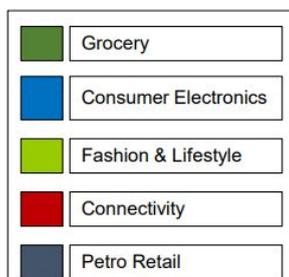
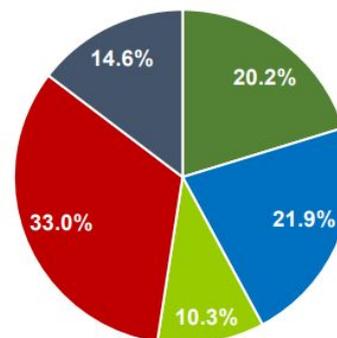
(Numbers in brackets represent previous year numbers)

## Revenue Sharing across verticals

Revenue Mix – FY19



Revenue Mix – FY18



### Challenges-Peers:

The retailing sector is very competitive in nature and with almost no-barriers of entry to setup shops. Not only does Reliance Retail face fierce competition from domestic retailers like Future Group, Pantaloons, Avenue Supermarts, and Spencer's Retail, but also from the likes of Wal-Mart, the biggest retailer on the planet. Another challenge retailers are facing is the e-commerce platforms, with digitization growing so rapidly, platforms like '**BigBasket**', '**Grofers**', '**Myntra**', '**Flipkart**' and '**Amazon**' are increasing their sales quite rapidly. However, Reliance Retail has started AJIO, an e-commerce platform, for clothing to establish itself, even in the e-commerce sector.

## Comparison:

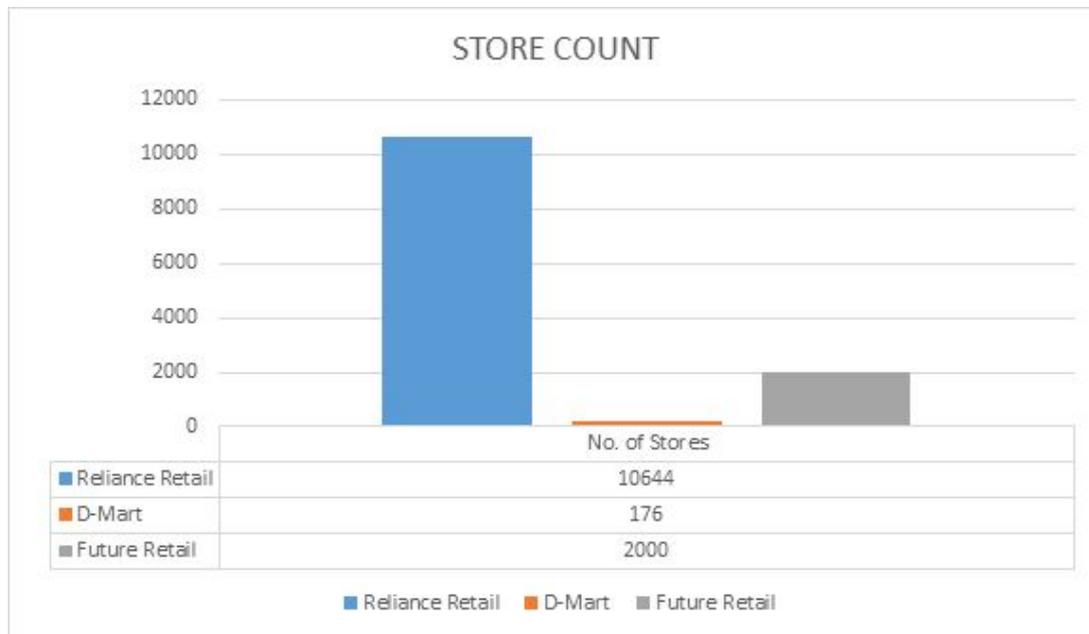


Fig.2

Reliance Retail dwarfs any other retailer in store count.

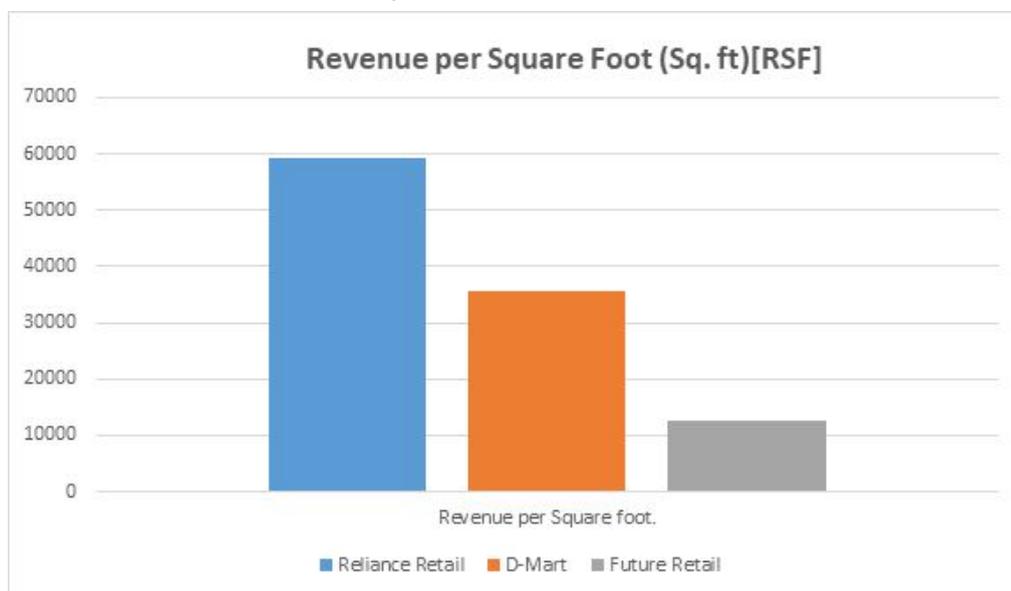


Fig.3.

Reliance Retail proved to be one of the most efficient retailers with maximum ‘RSF’, while operating the highest number of stores in the country.

## Financials of Reliance Retail ( in crs )

Year	Revenue	EBITDA	OPM	PAT	NPM	Equity	EPS
2015	16169	854	5.30%	272	1.70%	4,989.50	0.55
2016	18418	932	5.10%	306	1.70%	4,989.50	0.61
2017	26473	1200	4.50%	440	1.70%	4,989.50	0.88
2018	51501	2411	4.70%	1246	2.40%	4,989.50	2.5
2019	130566	6201	4.74%	3400	2.60%	4,989.50	6.8

## Valuation of Reliance Retail:

(i) Mcap = 2.93 Lakh Crore( at CMP of 600).

(ii) EV = 2.96 Lakh Crore

(iii) EBITDA = 6201 Cr ( Based on FY19 Financials)

(iv) EV/EBITDA= 47

(v) Mcap/Revenue= 2.25

## Peer Comparison

Avenue Super-Mart is the listed peer which we have taken for comparison. The financials of the Avenue Super-mart is shown below.

(fig in Crs)

Year	Revenue	EBITDA	OPM	PAT	NPM	Equity	EPS
2015	6,458	477	7.40%	211.7	3.30%	561.54	4
2016	8,602	682	7.90%	320.2	3.70%	561.54	6
2017	11,926	1011	8.50%	478.8	4.00%	624.08	8
2018	15,103	1423	9.40%	806.3	5.30%	624.08	13
2019	20,053	1682	8.40%	902.5	4.50%	624.08	14

## Valuation of Avenue Supermart ( Dmart)

- (i) Mcap = 91552 Crore( at CMP of 1476).
- (ii) EV = 91762 Crore
- (iii) EBITDA = 1682 Cr ( Based on FY19 Financials)
- (iv) EV/EBITDA= 54.56
- (v) Mcap/Revenue = 4.56

## UnlistedZone View on Peer Valuation

**(i)** The Reliance Retail at Current Market Price of 600 is currently Undervalued as compared to Avenue Supermart.

If you give Mcap/Revenue of 2.5 for FY18-19 financials to Reliance Retail then Fair value would be ~652.

**(ii)** In the Q1FY20, the company has clocked a Revenue of 38000 Cr. If you annualized it then we can say that Revenue for FY19-20 will easily surpass 1,50,000 Cr.

If you give Mcap/Revenue of 2.5 for FY19-20 Financials then Fair Value of Reliance Retail would be 750.

## Conclusion:

With the consumer spending that is prevalent in the economy, due to various reasons, 'Reliance Retail' is bound to grow. It has established a brand image in the minds of consumers, the modern Indian family, the youngsters and the local shops as well. However, competition is intense, be it from players like Amazon, Wal-Mart or D-Mart. Reliance Retail has to stay ahead of its peers in order to grow and maintain a competitive advantage. Finally, with its expansion into mid

and low tier cities, it has tremendous opportunity to capitalize the growth of consumerism in those markets.

The differentiators, we hope 'Reliance Retail' will sustain in the coming decades, are its reach, exclusivity, reputation, and value proposition for everyone.

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[1] IBEF-Indian Brand Equity Foundation.

[2] From Investor Presentation – Reliance Industries Limited Q1 FY 19-20.