

Reliance Retail

De-coding India's Everything store

Reliance Retail is India's biggest retailer by revenue/network (~USD23bn/>27mn sq. ft) and is akin to an 'Everything store' catering to the entire consumer basket. Grocery, Fashion & Lifestyle (F&L) and Consumer Electronics (CE) form its core (~59% of rev; USD13.4bn, grew 37% CAGR over FY14-20) and is estimated to be spread across 4900 core retail stores. Capital intensity in biz remains high with pre-working capital CFO covering just ~58% of capital needs over FY14-19. Hence, while still manageable, leverage has inched up to 1x in FY19 (near-zero in FY17). We bake in Rev/EBITDA/PAT CAGR of 20/28/34% over FY19-22E and value RR/Core Retail at an EV of Rs.2.4/2.3tn (SOTP-based), implying 19/20x FY22 EV/EBITDA.

- Grocery to be the growth anchor, stock-up format gaining preference:** Grocery biz is expected to take centre-stage in RR's growth narrative over FY19-22E (to contribute >45/46% of incremental Rev/EBITDA) as expansion plans for the profitable stock-up format 'SMART' are revved up. RR added 171/248 Smart stores (est) in just over 2 years. Recent acquisition (SKDS Dept. stores) also validates the heightened focus on stock-up format. F&G productivity has improved significantly over FY16-19 (Est. Rs. ~44k/sq. ft; 28% CAGR) as a consequence. Per channel/store network checks, the Reliance SMART network is getting denser too. Consequently, cost of retailing has also inched down (220bp over FY16-20E). We believe these cost savings will in turn be fed into pricing to better compete in the ecosystem and gain share. We build in rev CAGR of ~33% over FY19-22E.
- Reliance Trends – One up on peers:** Reliance Trends/extensions (RR's value fashion play) remains key to RR's fortunes in F&L biz. The format is estimated to account for ~80% of F&L revenues, ~Rs. 100bn. Other formats, remain irrelevant in size. The format has a sizeable advantage over peers on assortment, pricing and distribution – The holy grail of retailing. Per our SKU Analysis, Trends sports among the highest proportion of smartest priced SKUs (45/48% of its Men/Women SKUs priced in Rs. 500-1000 range and 90% of Kids SKUs priced <Rs. 500). It also sports the most dense store network in class. We believe, this 1. Increases top-of-the-mind recall in catchments, which increases productivity, 2. Reduces cost of retailing. On both parameters, Reliance Trends tops its class. We build in a 23% rev CAGR over FY19-22E for the F&L segment.
- Consumer Electronics (CE) to cool off:** CE is RR's biggest (~Rs. 49.5bn) and fastest growing biz (59% CAGR over FY14-20E; ~51% of core retail revenue). The big revenue bump up came in 4QFY18 courtesy JIO phone/device launch. However, CE growth will cool off given 1. Moderation in revenue from JIO devices, 2. High base effect in core CE sales. We build in ~18% CAGR (7% SSSG) in core CE (ex-JIO devices) over FY19-22E.

Fig. 1: Financial Summary

Rs. mn	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	175,485	209,282	333,311	621,616	1,163,575	1,467,703	1,729,080	2,009,568
EBITDA	7,515	8,729	11,840	32,894	60,758	89,390	101,587	127,907
APAT	2,041	2,230	4,286	21,413	32,284	54,984	61,429	79,065
FV/E (x)	1,116.8	1,022.3	531.8	106.5	70.6	41.5	37.1	28.8
EV/EBITDA (x)	315.1	271.3	200.0	72.0	39.0	26.5	23.3	18.5
ROE (%)	3.4	3.4	6.0	25.1	27.8	33.8	27.9	27.3
RoIC (%)	3.7	4.7	7.7	24.6	20.3	23.2	21.1	22.6
ROCE (%)	4.1	4.2	7.2	23.4	18.7	21.2	19.4	20.6

Source: Company, HDFC sec Inst Research

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- **Margin levers limited, WC quality improving though!** While RR enjoys best-in-class margins across nearly all categories given its unparalleled scale. (Reported EBITDA/Core Retail EBITDA margin at 5.7/6.1% (on gross sales). Benefits hereon are expected to be capped as 1. Competitive intensity increases in CE (biggest EBITDA contributor), & 2. Omni-investments increase cost of doing biz. Core CC cycle increased in FY19 (38 days), however, WC quality has improved though as both inventory and payable cycles shortened. We reckon this is to ensure RR remains a partner of choice for vendors.
- **COVID-19 Impact:** The 21-day India lockdown (effective 25-Mar-2020 onwards, now extended) courtesy the COVID-19 outbreak will certainly impact RR's operations (especially ex-grocery). While the situation remains fluid, we have built in over a one-month's washout in F&L and Consumer Electronics sales as stores remain closed. The subsequent footfall loss and slow recovery underpins the 3-4%/10-14% revenue/EBITDA cut in FY21/22E. (For segment-wise granularity: Refer to section COVID-19 Impact)
- **STANCE:** We like RR's 'Everything store' DNA as it positions the retailer as an ecosystem for all needs in the minds of the consumer. With RR's increasing relative scale (now >3.5x the 2nd largest retailer), time may just be apt for its retail 'flywheel' to generate its own momentum. While margin gains seem capped, 1. Increasing scale 2. Reducing capital intensity (at the margin) should ensure RR meaningfully becomes FCFE +ve by FY21E). RoCEs to remain steady. We build in revenue/EBITDA/PAT CAGR of 20/28/34% over FY19-22E and value RR at an EV of ~Rs.2.4tn (USD33bn) and its Core Retail biz at Rs. 2.3tn (USD32bn) implying an EV/EBITDA of 18/20x (Sept-21) respectively for the consol/Core Retail biz.

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Story in Charts

Fig. 2: F&G getting increasingly top-heavy. Leaner (lower cost of retailing) grocers like RR, DMART gaining share

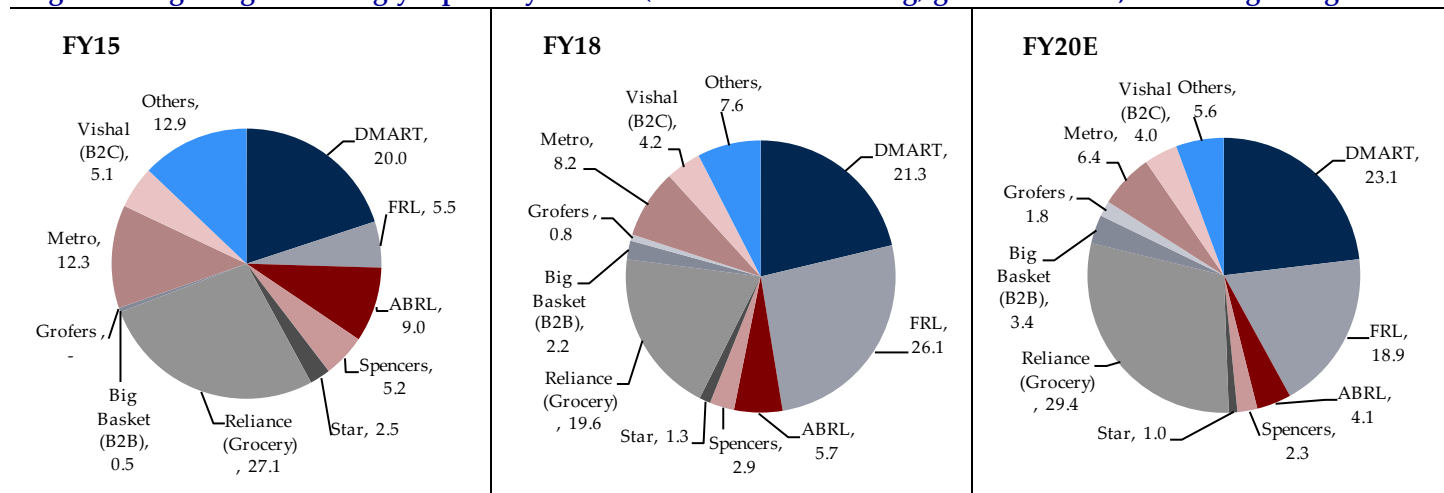
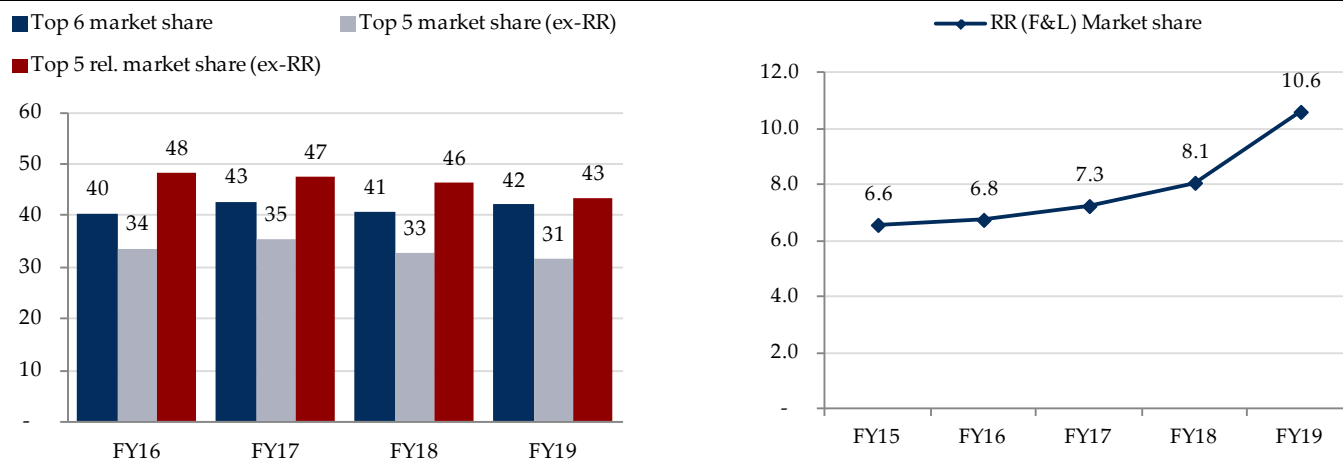
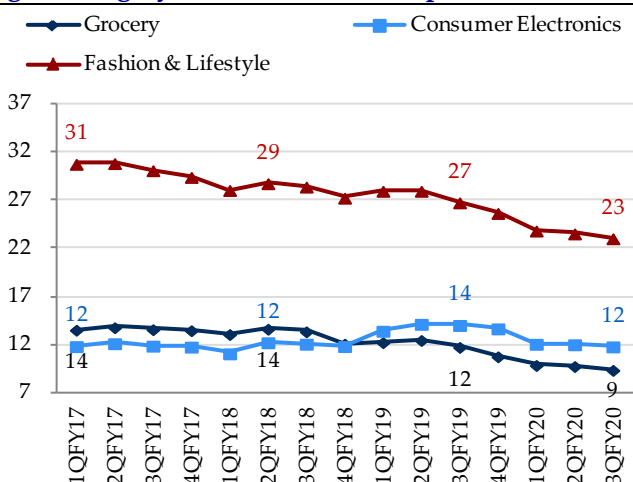


Fig. 3: In F&L too, RR has been consistently gaining share courtesy its value fashion play – Reliance Trends



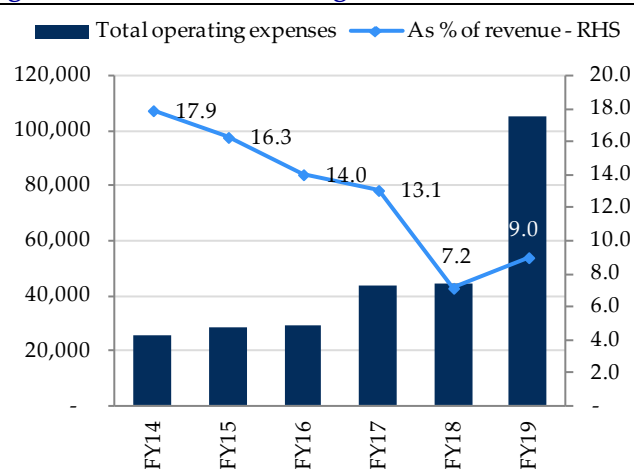
Source: Company, HDFC sec Inst Research

Fig. 4: Category-wise movement in opex (As % of sales)



Source: Company, HDFC sec Inst Research

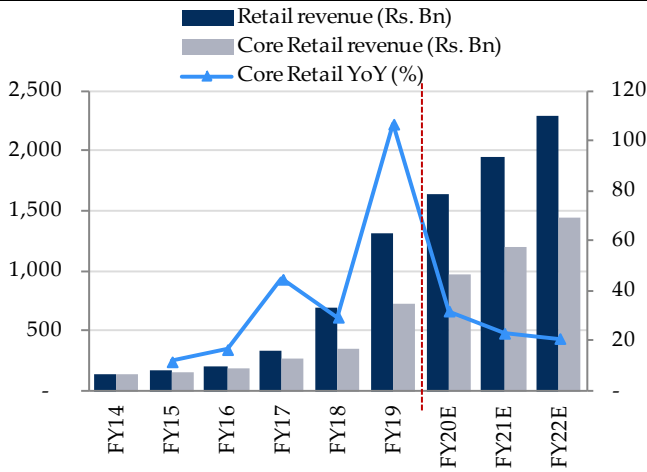
Fig. 5: RRVL: Cost of retailing movement (consol)



Source: Company, HDFC sec Inst Research, Note: FY19 increase in cost of retailing is due to operating leases for Jio Phones

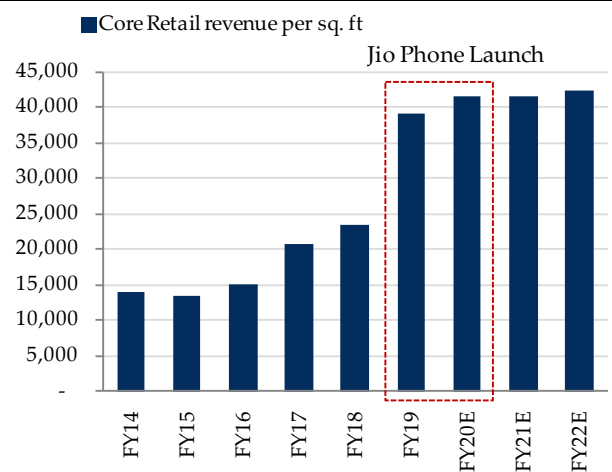
Reliance Retail: Company Update

Fig. 6: On a high base, Core Retail revenue to grow at ~25% CAGR over FY19-22E



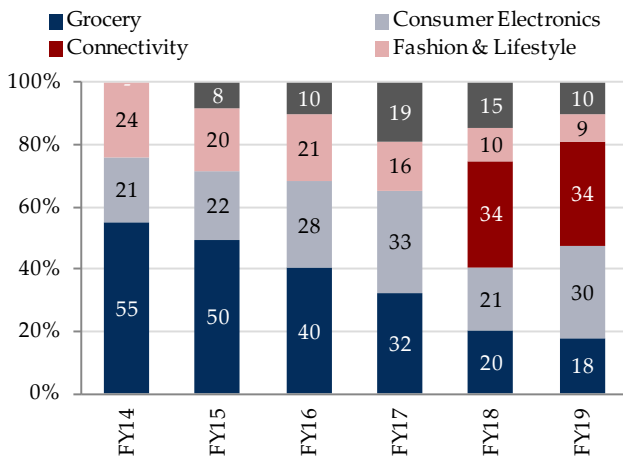
Source: Company, HDFC sec Inst Research

Fig. 7: Core Retail productivity estimated at ~41k per sq. ft



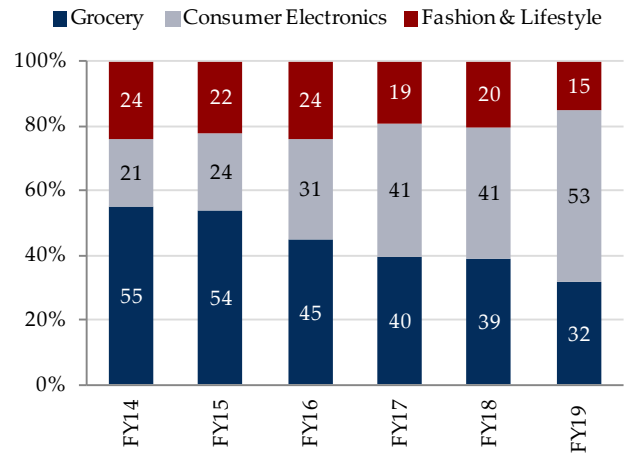
Source: HDFC sec Inst Research estimates

Fig. 8: Retail Revenue Mix



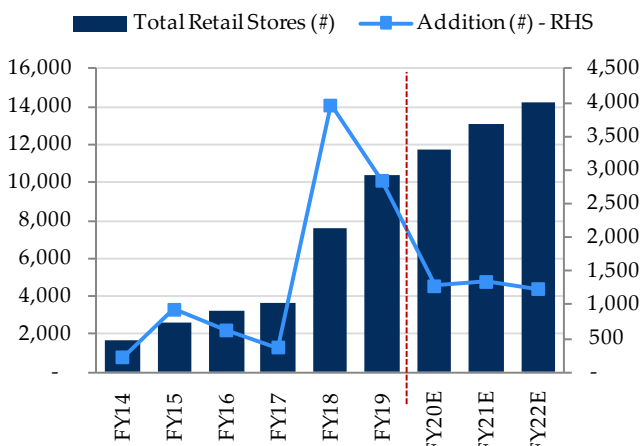
Source: Company, HDFC sec Inst Research

Fig. 9: Core Retail Revenue Mix



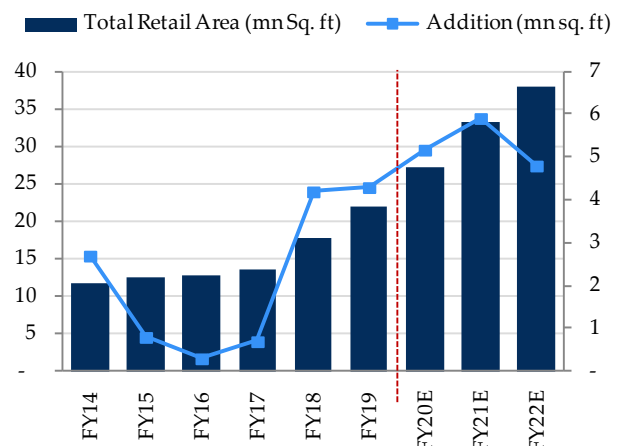
Source: Company, HDFC sec Inst Research

Fig. 10: Largest retail network in India - 10,901 stores



Source: Company, HDFC sec Inst Research

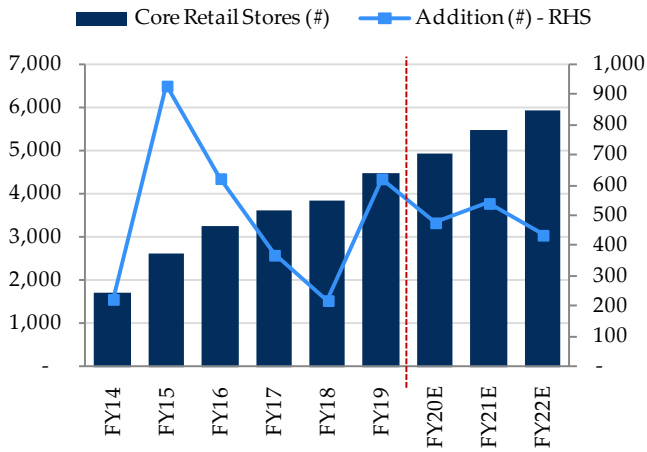
Fig. 11: ...24.5mn sq. ft in retail space



Source: Company, HDFC sec Inst Research

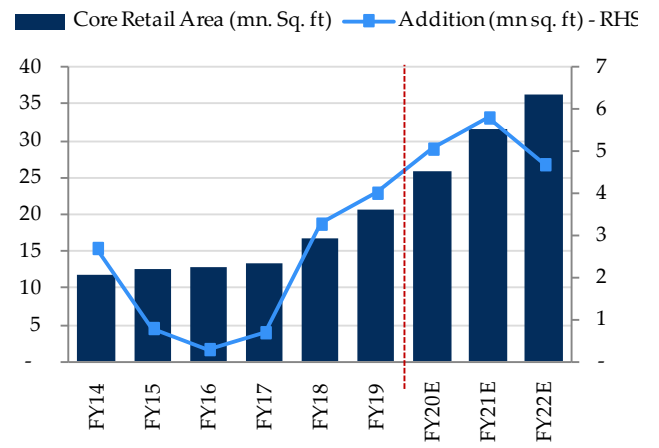
Reliance Retail: Company Update

Fig. 12: Core Retail to add >1250 stores over FY19-22E



Source: Company, HDFC sec Inst Research

Fig. 13: Ergo, building in 20% Area CAGR over GY19-22E



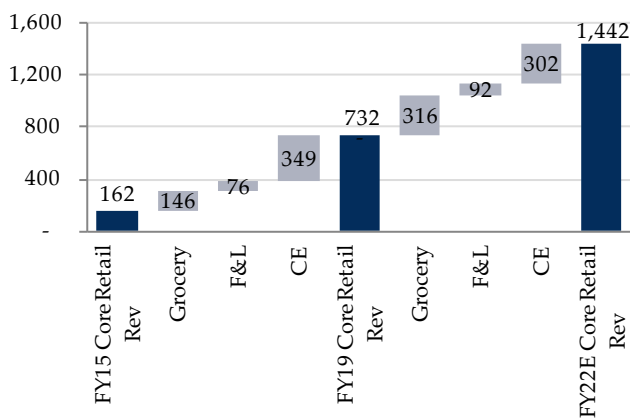
Source: Company, HDFC sec Inst Research

Grocery to be the growth anchor

Stock-up format gaining preference

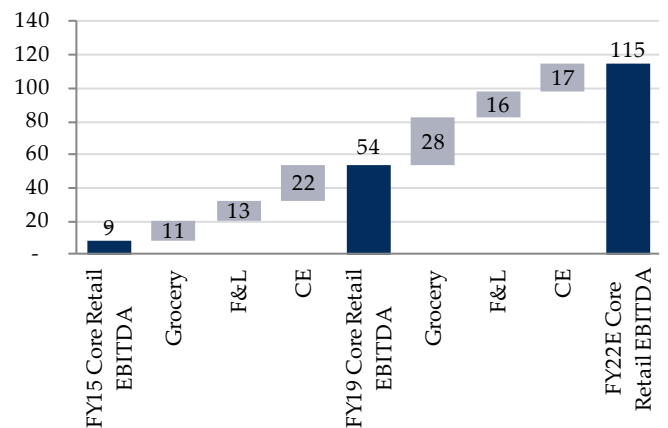
- Grocery biz is expected to take centre-stage in RR's growth narrative as Consumer Electronics biz cools off courtesy 1. moderating JIO phone sales; 2. High base, 3. Ever intensifying e-tail onslaught in the category
- Stock-up format (Reliance SMART) gaining preference as top-up format remains store economics-crushing for all industry participants. Ergo, productivity/profitability per sq ft has improved significantly over FY16-20. Recent acquisitions validate the step-up in focus on stock-up too.
- Focus remains on lowering cost of retailing via 1. Making the store network denser, 2. Improving omni-channel capabilities.
- Our store network analysis across key grocers suggests that while D-MART ranks best on real estate choices and density of network. RR too is playing catch up.
- Stock-up format (Reliance SMART) gaining preference as top-up format remains store economics-crushing for all industry participants. Ergo, productivity/profitability per sq ft has improved significantly over FY16-20. Focus remains of lowering cost of retailing via 1. Making the store network denser, 2. Improving omni-channel capabilities
- **Grocery to take centre-stage in growth narrative:** While Consumer Electronics vertical (CE) was the growth lever contributing 61/47% of incremental revenue/EBITDA over FY15-19, it is expected to cool off courtesy moderating Jio phone sales. Grocery biz is expected to take centre-stage in RR's growth narrative over FY19-22E (to contribute >45%/46% of incremental revenue/EBITDA) as expansion plans are revved up. The company operates the grocery vertical via 3 formats: 1. Reliance Fresh (Convenience store), 2. Reliance Smart (stock-up format) and Reliance Market (Cash & Carry).

Fig. 14: Revenue contributors (FY15-22E)



Source: Company, HDFC sec Inst Research

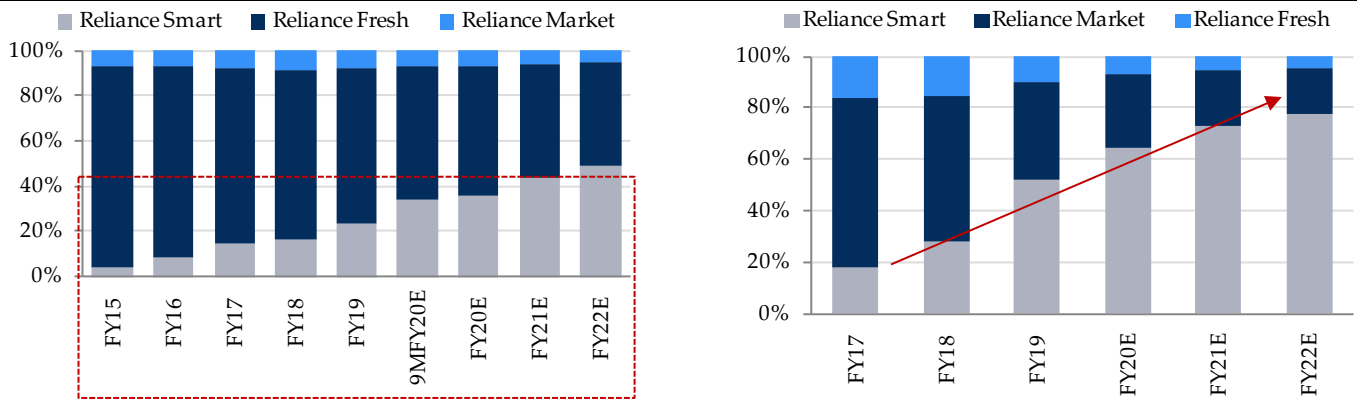
Fig. 15: EBITDA contributors (FY15-22E)



Source: Company, HDFC sec Inst Research

- **Stock-up format gaining preference; ergo productivity should improve:** Perhaps opportunistic, but focus has decisively shifted towards the more profitable stock-up format (Reliance Smart). RR added 171/248 Smart stores (est) in just over 2 years (3QFY18-3QFY20). On the other hand, Reliance Fresh's expansion (top-up format), has been reined in. Understandably so, as the top-up format remains store economics-crushing for all industry participants. F&G productivity has improved significantly over FY16-20 (HDFC Sec est. ~Rs. 43.8k/sq. ft; 28% CAGR) as a consequence. Given the young store age profile of Reliance Smart, we expect SSSG to be healthy for the grocery biz and build in revenue CAGR of ~35% over FY19-22E.

Fig. 16: Stock-up format Reliance Smart gaining preference in expansion strategy (Mix of no. of stores, Area)



Source: Company, HDFC sec Inst Research estimates

- **Recent acquisition also validates the ‘focus on stock-up’ narrative:** The recent acquisition of Shri Kannan Department stores (SKDS) also validates the focus on the stock-up format. SKDS (incorporated in FY2000), is a stock-up grocer (avg. store size: 20,690 sq. ft) with a network of 29 stores and 0.6mn sq. ft retail space predominantly in Coimbatore.
- SKDS has a dwindling top-line (-7% CAGR over FY17-19, Rs. 4.15bn in FY19) with a burgeoning working capital cycle and a precarious leverage position (Net Debt/EBITDA: 5x, Interest cover: 1.1x). However, from RRVL’s point of view, if executed well, the deal may turn out to be a steal as
 1. It gives RR access to a potentially lucrative and relatively virgin geography for org. retail - Coimbatore. The district has a PCI range of Rs. 200-250k and a reasonable population density of ~730/sq. km (Indian avg 464/sq. km). Big box retailers hardly have a presence in Coimbatore (Big box retailers - 5 stores; DMART has 2 stores)
 2. There are enough cost synergies to milk. Also, current rev/sq ft (Rs. 6900) and GPM can easily be improved upon by a rejig of product mix and better utilising the asset through its omni-initiatives. Even, if RR gains a 20% share in Coimbatore we are looking at a ~15% rev CAGR for RR in this market.

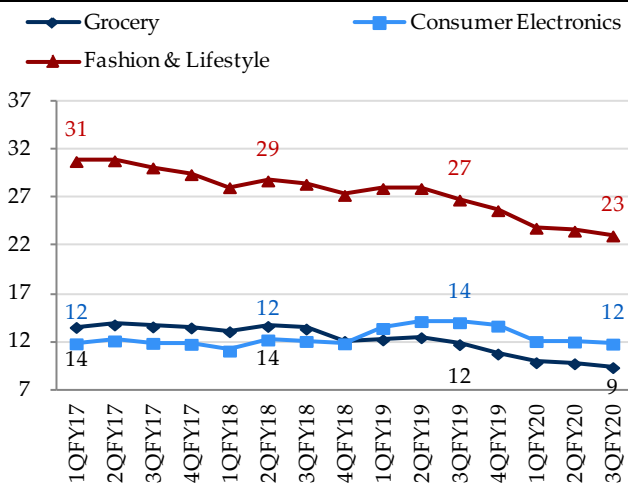
Fig. 17: Enough Cost synergies to milk from the recent SKDS Acquisition

Rs. mn	SKDS				Estimated P&L (Reliance -Grocery)	
	FY17	FY18	FY19	FY22E	FY19	Comments
Revenue	4,812	4,502	4,147	5,459	216,867	@ 20% household market share, RR could improve its throughput and revenue per sq. ft by ~15% CAGR over FY19-22E
GPM	11.9	12.8	13.0	15.0	15.0	Better sourcing margins for RR and product mix change can bring GPMs closer to estimated company average of ~16%
Cost structure (As % of sales)	9.1	9.9	9.9	8.2	8.7	Savings in Employee, Rent and A&P expenses (courtesy brand equity) along with operating leverage could help save ~170bp in opex
Emp. Exp	3.5	3.8	4.0	3.0	3.0	
Rent	1.8	1.8	1.9	1.9	2.0	
A&P spends	0.3	0.3	0.3	0.1	0.2	
Other expenses	3.5	3.9	3.7	3.2	3.5	
EBITDA	136	132	128	372	13,736	
EBITDA margin (%)	2.8	2.9	3.1	6.8	6.3	
PAT	42	33	20	278		
RoE (%)	9.8	8.5	4.7			
RoCE (%)	5.5	6.9	4.0			
Revenue/sq. Ft	7,503	7,254	6,912	9,099		
EBITDA/sq. ft	212	212	213	637		
EV (money paid by RIL) (Rs. mn)			1525			
Equity Value (Rs. mn)			903			
EV/EBITDA (x)			11.9			
P/B (x)			2.1			

Cost of retailing inching down

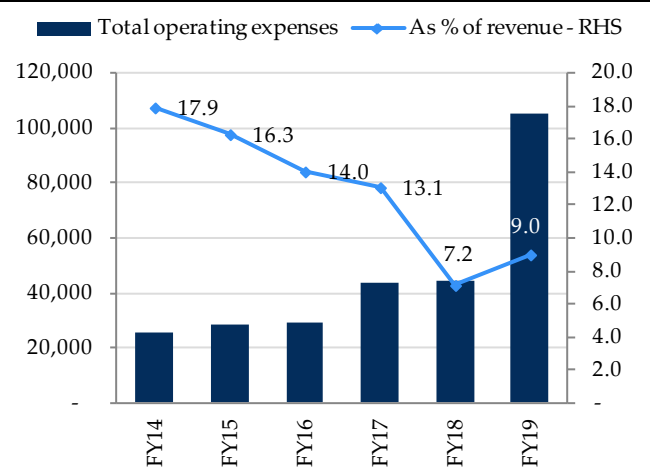
- **Network is getting denser:** Channel checks, store analysis and recent acquisitions also suggest that RR is trying to make its network denser (especially in South)
- **Ramping up its omni-footprint too:**
 1. The company has launched a new small store format in 3Q -SMART point (500-1, 500 sq. footers) with presence in residential neighbourhoods and Reliance SMART's price promise. 18 stores have been launched in Navi Mumbai, Thane and Kalyan in 3Q. These outlets will double up as last mile delivery (LMD) hubs for online fulfilment as well as act as Pick-up-points (PuP) – A la D-MART Ready.
 2. RR's 'New Commerce' initiative wherein it connects Kirana stores to a consumer base and manages their inventory via an M-POS system is expected to bring down LMD costs too as Kirana stores act as LMD agents.
- As store networks get denser and omni-footprint increases across formats/categories, supply chain costs come off, which can in turn be fed into smarter assortment pricing to gain market share. An inkling of this, can be seen in RRVL's reducing cost of retailing across core categories – F&G, F&L, Consumer Electronics (Note: These are estimates).

Fig. 18: Category-wise movement in opex (As % of sales)



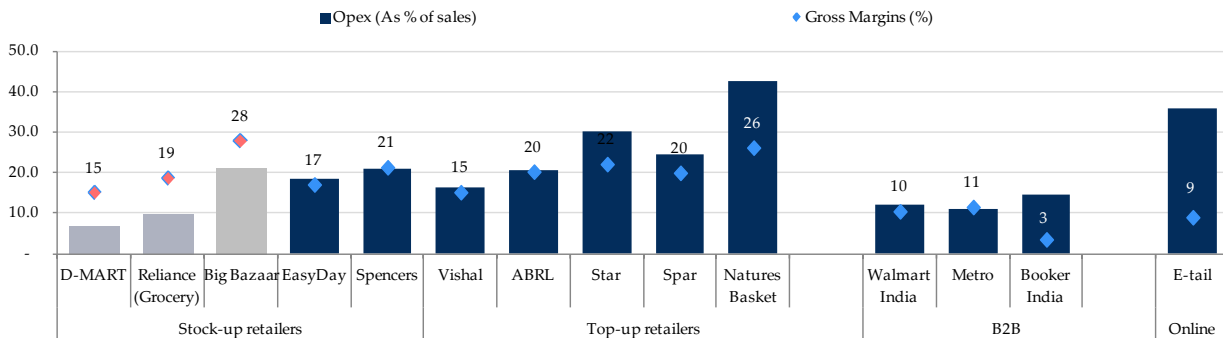
Source: Company, HDFC sec Inst Research

Fig. 19: RRVL: Cost of retailing movement (consol)



Source: Company, HDFC sec Inst Research, Note: FY19 increase in cost of retailing is due to operating leases for Jio Phones

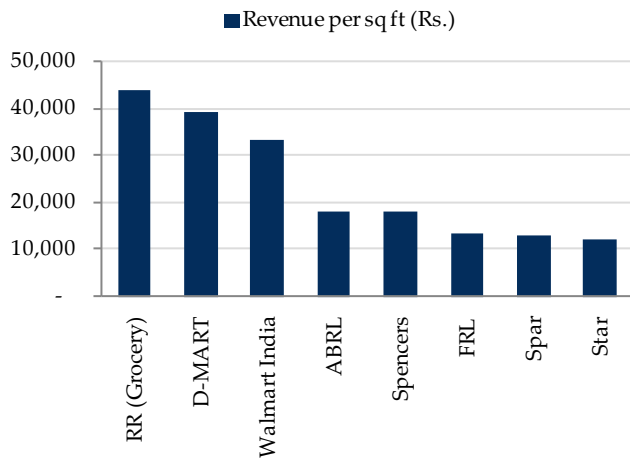
Fig. 20: Peer-wise gross margins and cost of retailing (%)



Source: Company, HDFC sec Inst Research (FY19), Note: Reliance Grocery figures on Gross Sales basis

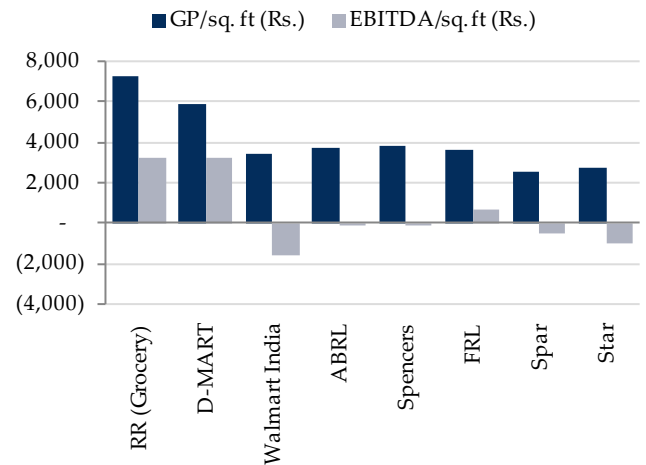
- **Tier2/3-heavy store network allows RR to focus on 'Fresh':** Our district-wise store analysis (based on per capita income and population density) clearly shows that D-MART trumps peers in real estate choices (most dense network among peers, operating in the most-densely populated districts with one of the highest per capita income profiles). Ergo, enjoys one of the highest sales velocities in trade.
- In this backdrop, RR's higher sales velocity (for Reliance Smart) seems disjointed with its store location profile (higher tier 2/3 presence). However, we believe, its focus on high frequency and high margin (if supply chain/wastage costs reined in) Fresh category in near virgin markets with weak fruits & vegetables (F&V) vendor base may perhaps be aiding its throughput/sq. ft. **However, supply chain costs are likely to be higher vs D-MART. (Cost of retailing est: ~10% for RR's grocery biz vs D-MART's 6.5%)**

Fig. 21: Grocer-wise revenue per sq. ft



Source: Company, HDFC sec Inst Research (FY19). RR and D-MART's figures are on annualized FY20 financials

Fig. 22: Grocer-wise profitability per sq. ft



Source: Company, HDFC sec Inst Research, RR and D-MART's figures are on annualized FY20 financials

Fig. 23: Grocer-wise District Wise Store Mapping Across Per Capita Income and Population Density of India

Store Mix (%)											
PCI/Population density	Population (mn)	District (#)	D Mart	Reliance Smart	Big Bazaar	Star Bazaar	Vishal Megamart	Spencers	Spar	Natures Basket	
<Rs.100K	498	220	2.5	14.1	15.3	-	29.6	18.7	4.0	-	-
<300	105	79	0.5	5.8	2.2	-	4.4	-	-	-	-
1000-3000	162	47	-	-	8.4	-	13.2	17.1	-	-	-
3000-5000	7	2	0.5	1.7	2.2	-	3.8	1.6	4.0	-	-
300-500	47	24	1.5	2.1	0.7	-	1.3	-	-	-	-
500-1000	177	68	-	4.6	1.8	-	6.9	-	-	-	-
Rs. 100-150K	225	118	12.4	18.7	14.9	-	20.1	8.1	-	-	-
<300	78	56	4.0	5.0	1.1	-	5.0	0.8	-	-	-
1000-3000	33	6	-	0.8	2.5	-	1.3	2.4	-	-	-
3000-5000	5	1	-	-	0.7	-	-	0.8	-	-	-
300-500	83	43	6.0	7.9	6.2	-	7.5	3.3	-	-	-
500-1000	26	12	2.5	5.0	4.4	-	6.3	0.8	-	-	-
Rs. 150-200K	191	86	21.9	20.7	20.0	2.6	18.9	40.7	12.0	3.0	-
<300	67	31	6.5	5.4	1.8	-	3.1	1.6	-	-	-
1000-3000	14	3	3.0	1.2	1.5	-	1.3	-	-	-	-
300-500	56	29	5.0	5.4	3.3	-	5.0	8.1	-	-	-
5000+	9	2	0.5	2.5	8.7	-	1.3	30.9	12.0	3.0	-
500-1000	46	21	7.0	6.2	4.7	2.6	8.2	-	-	-	-
Rs. 200-250K	72	30	4.5	10.0	7.6	-	6.3	5.7	12.0	-	-
<300	3	3	-	-	0.4	-	-	-	4.0	-	-
1000-3000	23	7	-	1.7	2.9	-	1.3	4.1	-	-	-
300-500	18	8	1.5	2.1	1.5	-	0.6	-	-	-	-
500-1000	28	12	3.0	6.2	2.9	-	4.4	1.6	8.0	-	-
Rs. 250-300K	21	6	10.9	8.7	9.1	20.5	1.9	-	-	6.1	-
1000-3000	9	3	3.5	3.3	5.1	-	0.6	-	-	-	-
300-500	1	1	-	0.4	0.7	-	-	-	-	-	-
500-1000	10	2	7.5	5.0	3.3	20.5	1.3	-	-	6.1	-
Rs. 300-500K	57	12	32.8	17.4	25.5	76.9	18.9	19.5	68.0	90.9	-
<300	0	1	-	-	-	-	-	-	-	-	-
1000-3000	2	1	-	0.4	0.4	-	1.3	1.6	-	-	-
3000-5000	10	1	9.0	3.7	6.9	46.2	2.5	1.6	32.0	24.2	-
300-500	3	2	-	0.8	1.5	-	1.3	-	8.0	-	-
5000+	35	4	23.9	11.6	16.0	30.8	12.6	15.4	28.0	66.7	-
500-1000	8	3	-	0.8	0.7	-	1.3	0.8	-	-	-
Rs. 500K+	3	2	-	2.1	2.9	-	3.8	6.5	4.0	-	-
1000-3000	3	2	-	2.1	2.9	-	3.8	6.5	4.0	-	-
Gujarat	55	26	14.9	8.3	4.7	-	0.6	0.8	-	-	-
<300	19	12	1.0	3.3	1.1	-	-	-	-	-	-
1000-3000	0	1	0.5	-	-	-	-	-	-	-	-
300-500	13	5	2.5	0.8	0.4	-	-	-	-	-	-
500-1000	22	8	10.9	4.1	3.3	-	0.6	0.8	-	-	-
Grand Total	1,122	500	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Attempting an Indian Ling Shou Tong!

Attempting an Indian Ling Shou Tong! RR's 'New Commerce' initiative is aimed at creating an ecosystem that connects the 3 key stakeholders in retail (Brands, Merchants & Consumers) – A la Ling Shou Tong (Alibaba's B2B play). Being the largest retailer across categories/2nd largest telecom operator (by subscribers), it certainly has the Brands and Consumer leg of the equation sorted and now intends to bridge the only gap – Merchants. The retailer intends to connect ~25-30mn mom-&-pop merchants via its M-POS. Benefits to the latter are multi-fold - 1. Better procurement rates, 2. Better customer profiling, 3. superior inventory management, ergo better margins and 4. Better financing terms. What's in it for RR? - It could charge an origination fee for its services sans the balance sheet risk.

...Some perspective: Globally, jury is still out on how to localize inventory? Why is this important? – To bring down fulfillment costs. Globally, Amazon and Alibaba have chosen divergent paths to achieve this. While Amazon has been adding fulfillment centers, Alibaba has been building a partner ecosystem alongwith acquiring physical store assets across formats to inch closer to the consumer. RR intends to go the Alibaba way. However, roadmap to success remains hazy as 1. In India, only the top 0.5-1mn odd Kirana stores can afford an M-POS, 2. Trust deficit remains, as most may view RR as a competitor rather than a partner 3. Consistent service levels may be a challenge at-least initially.

In China, while Alibaba's Lingshoutong platform (part of China Alibaba's Wholesale commerce) has successfully penetrated 1/6th the small retailer network in China (6mn), Its China Wholesale commerce vertical still remains sub-scale (USD1.8bn, 2.7% of sales) after 5 years of launch, and most of its heavy-lifting is still done by another format called 1688.com - An integrated domestic wholesale marketplace which connects wholesale buyers and sellers who trade in apparel, general merchandise, home decoration and furnishing materials, electronics, packaging materials and shoes, etc.

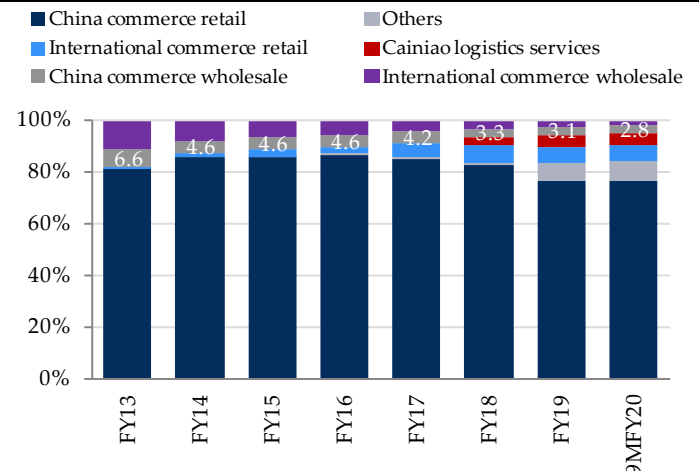
Hence, we remain circumspect of the scalability of this model in India (Not factored in estimates).

Fig. 24: Bulk of the growth in China wholesale is courtesy 1688.com



Source: Company, HDFC sec Inst Research, FY20 is annualized

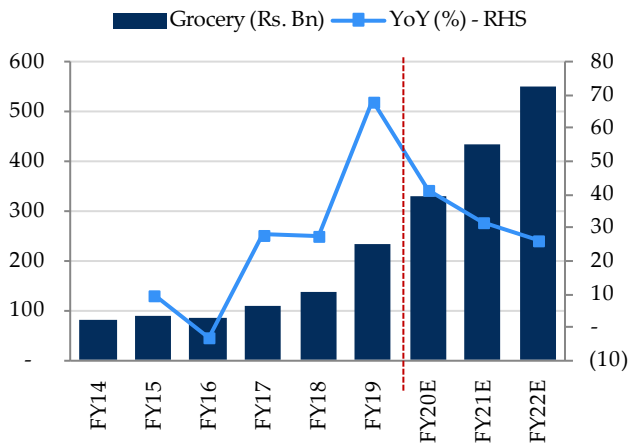
Fig. 25: China commerce wholesale losing relevance in Alibaba's portfolio



Source: Company, HDFC sec Inst Research

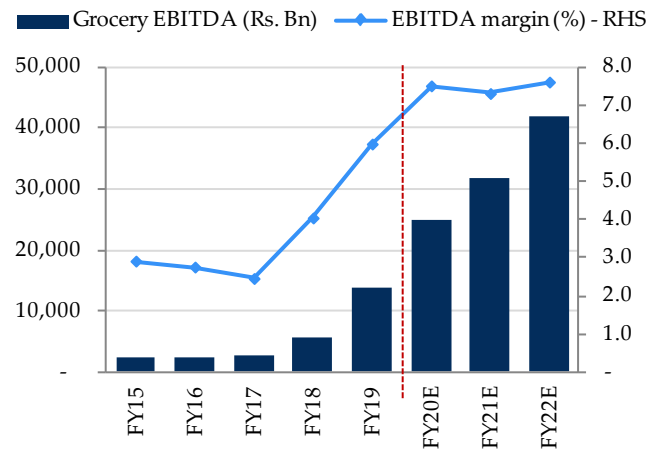
Reliance Retail: Company Update

Fig. 26: RR: Expect grocery to grow at 35% CAGR



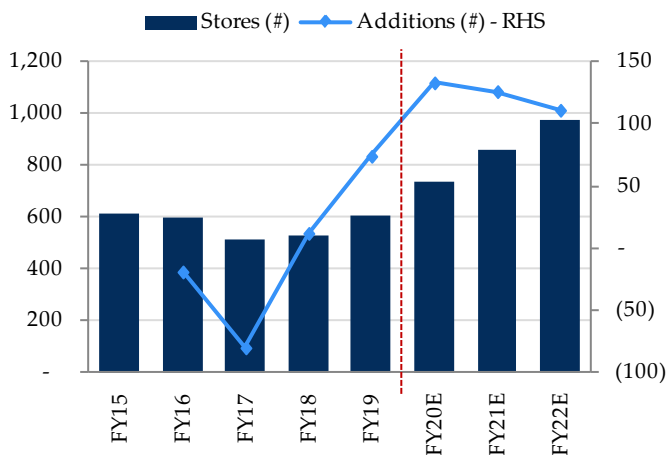
Source: Company, HDFC sec Inst Research

Fig. 27: RR: Grocery margins to remain steady over FY20-22E



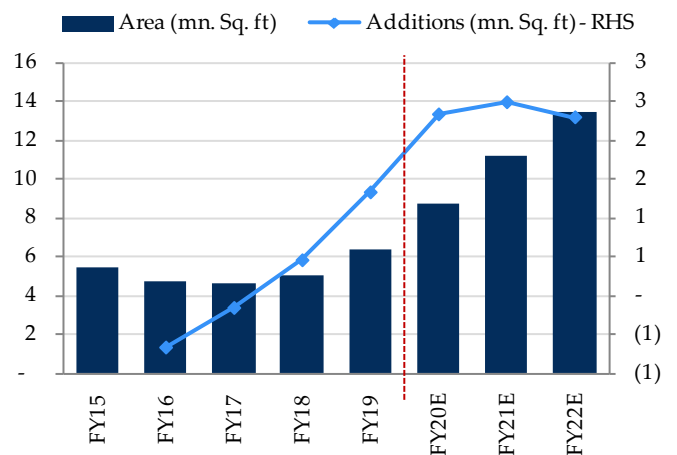
Source: Company, HDFC sec Inst Research

Fig. 28: We build in 370 store additions in Grocery



Source: Company, HDFC sec Inst Research, FY20 is annualized

Fig. 29: ...and 28% Area CAGR over FY19-22E

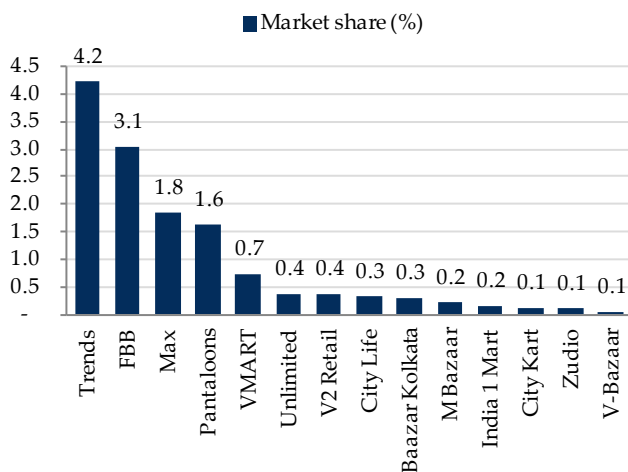


Source: Company, HDFC sec Inst Research

Trends the quarterback in Fashion & Lifestyle

- RR's value fashion format Reliance Trends remains the anchor format in this Rs. 140bn F&L biz accounting for ~80% of segmental revenues.
- The format seems to have got the troika of apparel retailing right – Assortment, Pricing and distribution. On assortment, It retails the highest proportion of SKUs priced in Rs. 500-1000 range in Men and Women and <Rs. 500 in Kids. On distribution, it sports the most dense network across nearly all Indian districts (512 districts used as sample). This helps, the format 1. increase top-of-the-mind recall and 2. Reduce cost of retailing, savings from which can in turn be fed into competitive pricing to gain market share.
- Meanwhile, the value fashion tail seems out of gas with footfalls sliding and working capital ballooning. Presenting, Reliance Trends an opportunity gain market share in several districts (Refer Table on district-wise store mapping)
- RR's F&L portfolio straddles multiple price points/income groups through multiple formats and categories. The largest within its portfolio is its value fashion format – Reliance Trends/extensions (est: at >Rs.100bn, ~80% of RR's F&L revenue) with a presence of >840 stores. In addition, RR has JVs with 39 international brands (via Reliance Brands – A subsidiary), a presence in footwear (Reliance Footprint) and Jewellery (Reliance Jewels) making the F&L portfolio one of the most well-rounded in India. (F&L grew at 26% CAGR over FY14-20E). We expect Trends to be the growth anchor (given its value positioning) and build in a 22% revenue CAGR over FY19-22E for the F&L segment.
- Note: While international brand JVs/footwear/jewellery make RR's F&L portfolio a well-rounded one, its relevance in profitability remains low.

Fig. 30: Trends leads the Rs. 3.6tn value fashion play



Source: Company, HDFC sec Inst Research

Fig. 31: Relative Market share gain/(loss)

	FY16	FY17	FY18	FY19	FY20
FBB	29.1	27.6	25.3	21.2	18.4
Pantaloons	15.3	14.9	13.3	11.4	10.8
Zudio	0.7	0.7	0.7	0.7	1.3
Max	12.5	13.8	13.5	12.8	12.9
VMART	5.7	5.9	5.7	5.1	5.1
V2 Retail	2.3	2.8	2.6	2.7	2.3
Reliance Trends	19.4	19.3	22.5	29.3	32.7
Unlimited	8.2	7.1	5.9	4.7	4.1
1India Mart	3.7	3.6	3.3	2.7	2.0
Baazar Kolkata	0.6	0.9	1.1	1.2	1.4
City Kart	3.9	2.3	2.3	2.2	2.3
City Life	0.2	0.9	0.9	0.8	0.9
BF	1.5	1.3	2.3	2.3	2.5

Source: Company, HDFC sec Inst Research

- What makes Reliance Trends tick?** 1. Assortment selection & pricing, 2. Real estate choices and 3. Cost of retailing typically separate the wheat from the chaff in retailing - value fashion (VF) is no different. Our SKU, store network and financial analysis across the VF universe suggests that Reliance Trends trumps peers across all of the aforementioned yardsticks.

1) Along with Max Fashion, Reliance Trends sports highest proportion of Men /Women SKUs within the Rs. 500-1000 price range and Kids' SKUs in the <Rs. 500 price range among peers. It also typically offers the highest assortment range in each category. This helps, as value seekers have a higher tendency for discovery-based shopping vs purposeful shopping.

Reliance Retail: Company Update

2) The store network density of Reliance Trends also remains the highest in peer-set (assessed by store-to-district ratio) across income and population density profiles in India. (512 districts assessed on per capita income and population density). Benefits of this are two-fold – a) It increases top-of-the-mind recall for the store brand in the catchment, ergo revenue per sq. ft, b) Keeps a tight leash on supply chain costs. Cost savings can in turn be fed into pricing and increase competitiveness. Note: Cost of retailing for Reliance’s F&L biz is estimated to be the lowest among peers.

Fig. 32: Men SKUs (Rs. 500-1000)

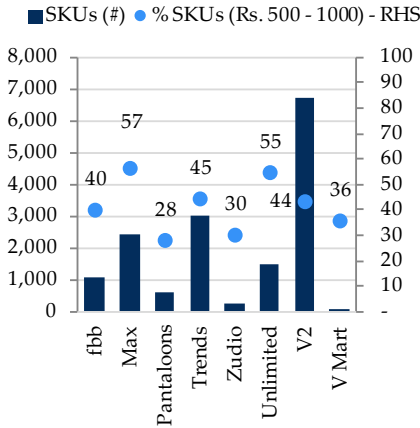


Fig. 33: Women SKUs (Rs. 500-1000)

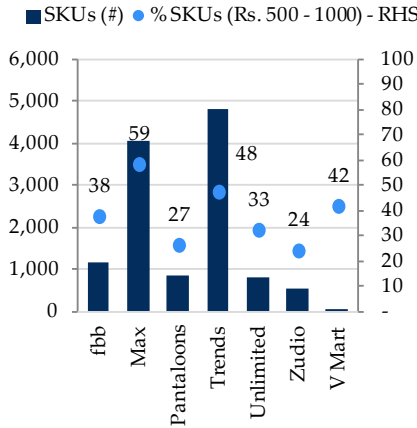


Fig. 34: Kids SKUs (<Rs. 500)

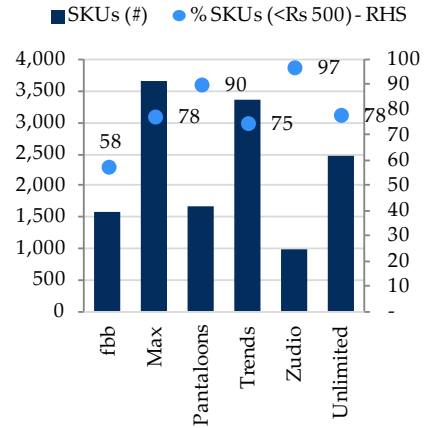


Fig. 35: Men T-shirts (<Rs. 500)

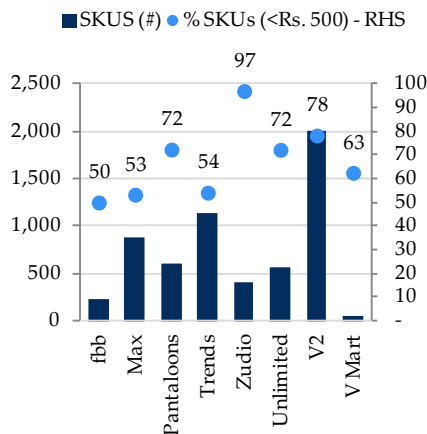


Fig. 36: Men Casual shirts (<Rs. 500)

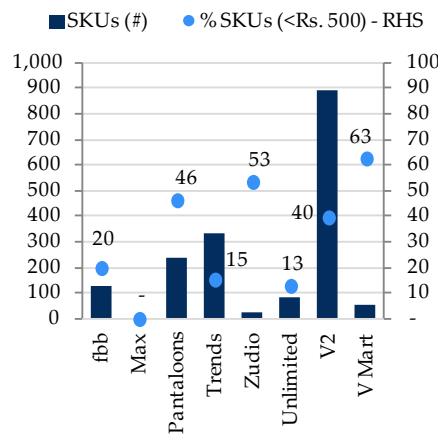


Fig. 37: Men Casual shirts (Rs. 500-1000)

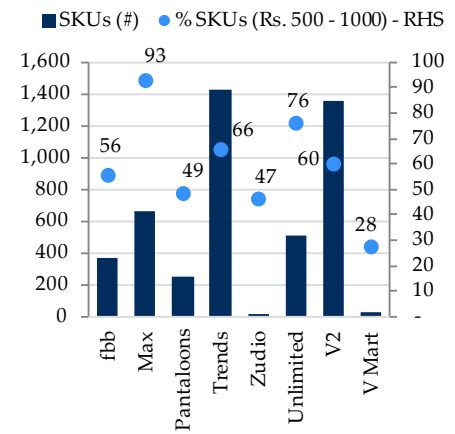


Fig. 38: Mens Trousers (Rs. 500-1000)

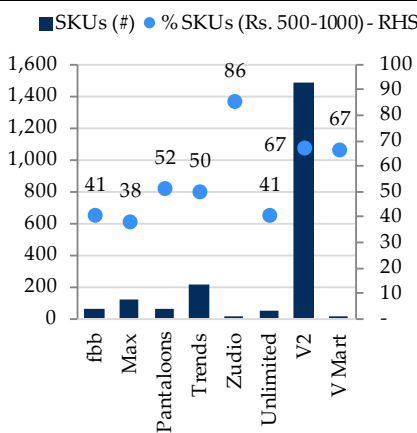


Fig. 39: Mens Jeans (Rs. 500-1000)

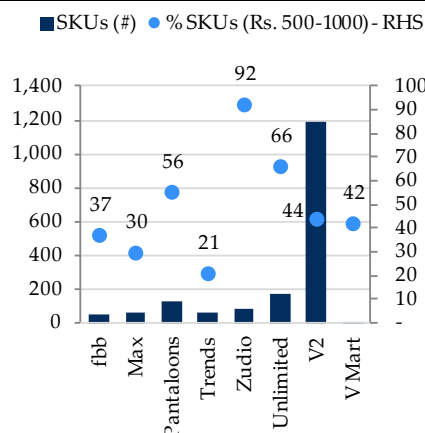
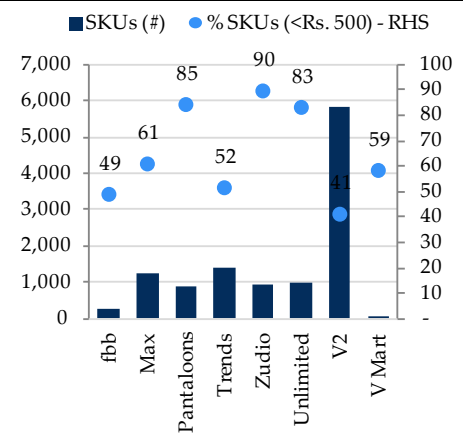


Fig. 40: Women’s Tops/Tees (<Rs. 500)



Source: Company websites, HDFC sec Inst Research

Reliance Retail: Company Update

Fig. 41: Women shirts (<Rs. 500)

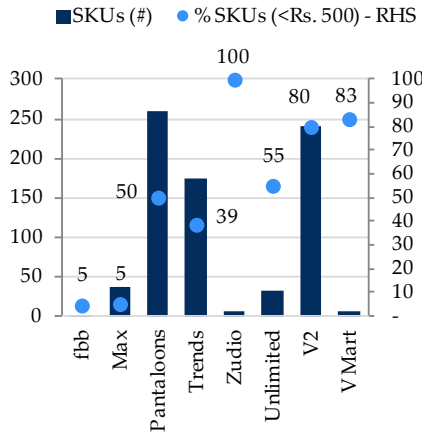


Fig. 42: Women shirts (Rs. 500-1000)

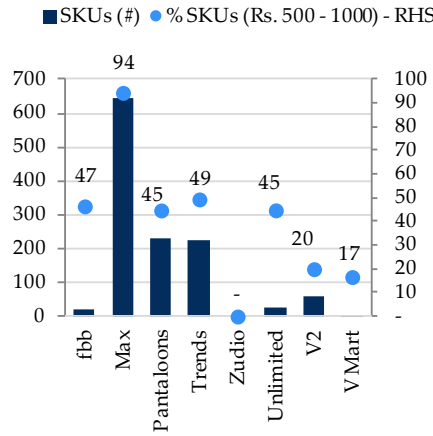
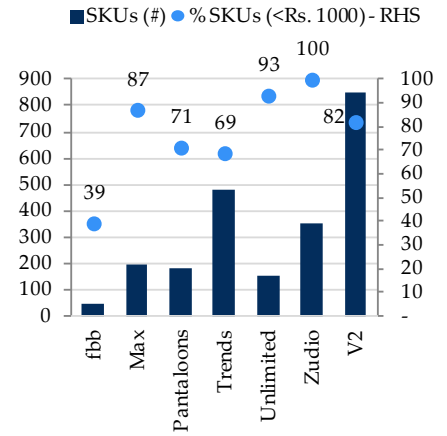


Fig. 43: Women Dresses (<Rs. 1000)



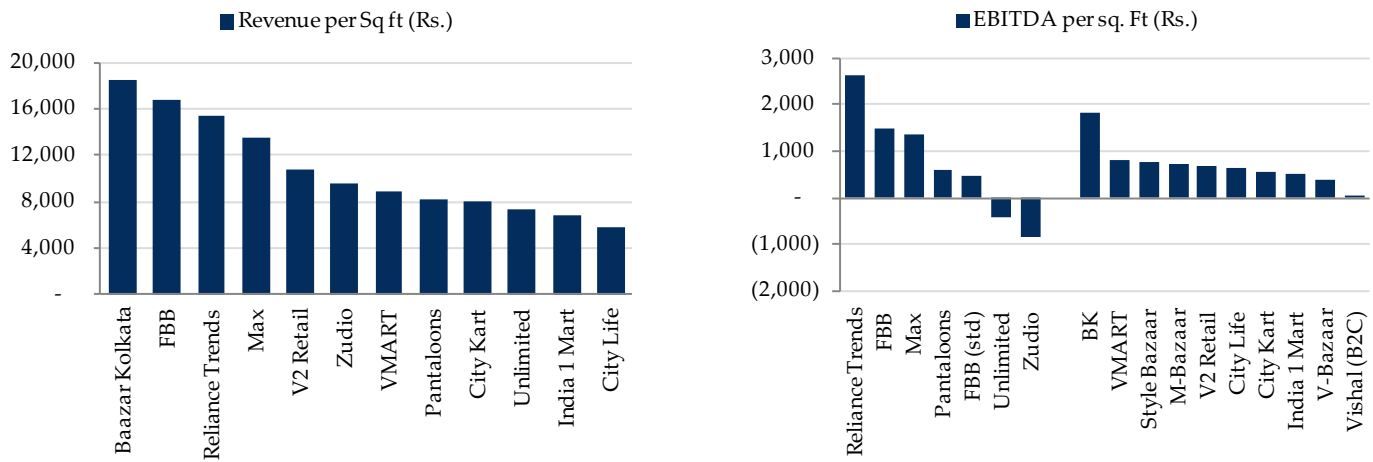
Source: Company websites, HDFC sec Inst Research

Fig. 44: F&L: District Wise Store Mapping Across Per Capita Income And Population Density of India (Store:District Ratio)

Row Labels	Population (mn)	District (#)	Pantaloons	Max	Fbb	Zudio	V Mart	V2 Retail	Style Bazaar	Citykart Retail	Citylife	M Bazaar	Bazaar Kolkata	1 India Mart	Reliance Trends
<100K	507	228	1.4	1.7	1.8		1.4	1.1	1.4	1.2	1.3	1.1	1.2	1.4	1.7
<500	140	97	1.0	1.0	1.1		1.1	1.0	1.0		1.0	1.0	1.0	1.0	1.6
1000-3000	165	48	1.4	1.8	2.3		1.7	1.2	1.3	1.3	1.5	1.0	1.3	1.6	2.2
3000-5000	5	1	7.0	3.0	5.0									1.0	8.0
500-1000	181	71	1.0	2.0	1.2		1.2	1.0	1.5	1.0	1.3	1.3	1.3	1.2	1.4
<300	3	4													1.3
300-500	13	7													1.6
>500k	3	2													
1000-3000	3	2	10.0	3.5	4.0		1.0	1.0		1.0	1.0				5.5
100-200k	410	206	1.8	2.1	1.8	1.2	1.2	1.1	1.7	1.0	2.3	1.8	2.3	0.7	2.5
<500	281	158	1.1	1.3	1.1	1.0	1.0	1.0	1.3	1.0	1.5	1.0	1.5	-	2.0
>5000	9	2	15.0	18.0	10.0	1.0			1.0		5.0	5.0	7.0		26.5
1000-3000	41	9	1.8	1.2	1.8		1.3	1.0	3.5		2.5	1.7	2.3		3.7
3000-5000	5	1	1.0		2.0				1.0			2.0	2.0		3.0
500-1000	74	34	1.5	1.6	1.7	1.3	1.3	1.5	1.0		1.0	1.0	1.0	1.0	2.3
300-500	1	2													1.0
200-300k	100	36	2.2	2.7	2.9	1.2	2.5	1.5	4.0		1.0	2.0	3.0	1.5	5.2
<500	22	12	1.3	1.5	1.8	2.0		1.0							2.8
1000-3000	40	10	2.0	3.3	4.2	1.0	4.0	2.0	4.0		1.0	2.0	3.0	2.0	6.4
500-1000	38	14	2.6	2.5	2.7	1.0	2.0							1.0	5.8
300-500k	58	13	7.0	18.5	6.6	5.3	2.0	1.0						1.0	12.3
<500	3	3	2.0	2.0	2.0			1.0							6.0
>5000	17	3	12.5	23.5	14.5	5.0		1.0							19.7
1000-3000	2	1	2.0		1.0			1.0							2.0
3000-5000	10	1	17.0	25.0	17.0	6.0									47.0
500-1000	8	3	1.5		1.0		2.0							1.0	2.3
300-500	1	1													1.0
5000+	17	1													13.0
Gujarat	61	27													2.5
1000-3000	6	2													1.5
500-1000	22	8													5.0
<300	19	12													1.3
300-500	13	5													1.5
Grand Total	1,138	512	2.3	3.0	2.4	1.9	1.4	1.1	1.5	1.2	1.4	1.3	1.6	1.3	2.9

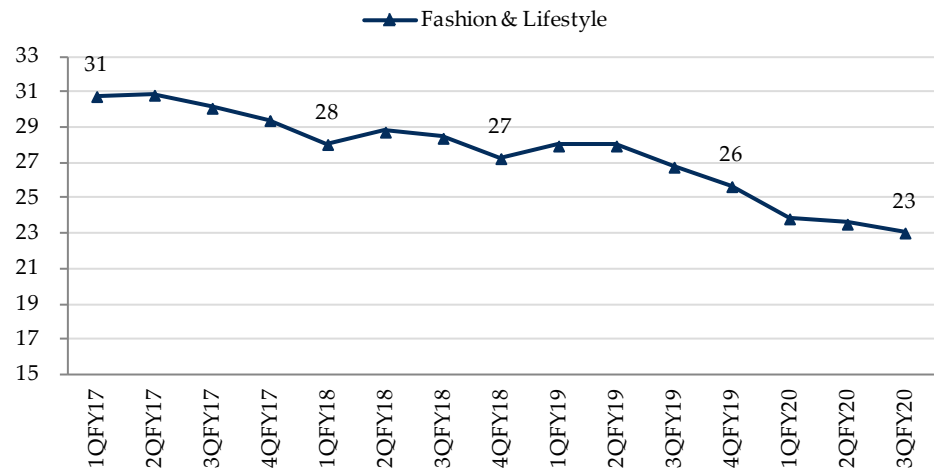
Reliance Retail: Company Update

Fig. 45: Troika of Denser distribution, SKU selection and pricing leads to higher revenue/profitability per sq. ft



Source: Company, HDFC sec Inst Research

Fig. 46: Cost of retailing (Opex as % of sales) is estimated to have come down by 770bp over FY17-20

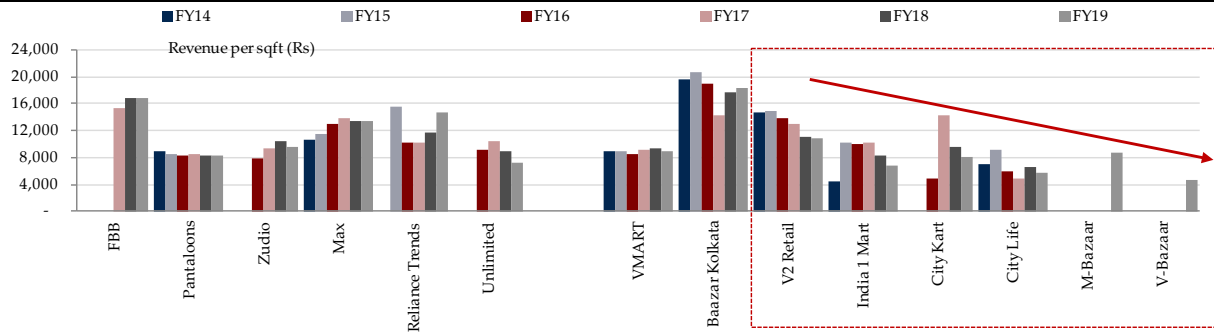


Source:HDFC sec Inst Research

- **Meanwhile, value fashion's tail seems out of gas!** Vendors of select VF retailers (tail-end) may very well be at the end of their tether as creditor cycles for some run up as high as 6 months (on COGS). Unless store productivity and inventory management improves, an existential crisis may be lurking around the corner. Strong incumbents such as Reliance Trends and VMART will be a key benefactors.
- While leverage position for some of these troubled firms may be comfortable and the working capital issue could be partly mitigated by raising more debt, others seem precariously placed within the ecosystem. We believe, in the short term, their could be some margin pressure on the ecosystem as inventory gets liquidated across the tail-end, however, in the medium-to-long term, one could expect some consolidation of market share in favour of the industry leaders. Even if strong incumbents captures 50% of the revenue (of weak operators) at risk, we are looking at a >Rs. 10bn opportunity just from the consolidation exercise.
- Hence, we build in a healthy 22% revenue CAGR (8.5% SSSG), a 985 store additions and 19% Area CAGR (similar to FY16-19) over FY19-22.

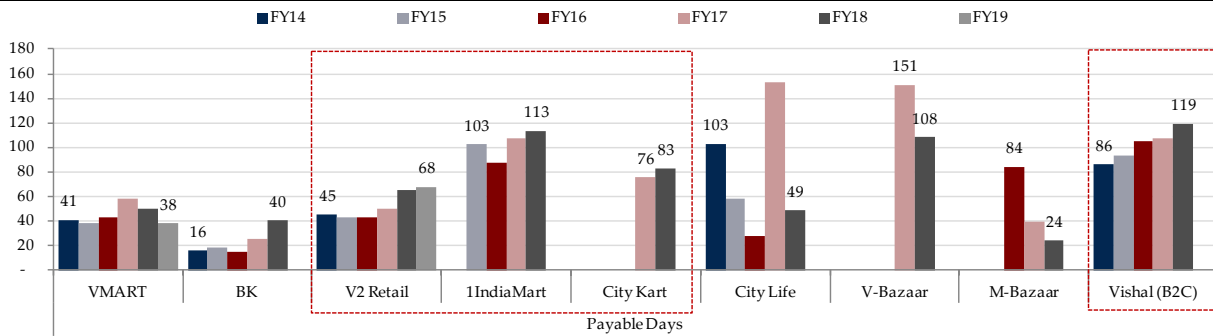
Reliance Retail: Company Update

Fig. 47: In Value fashion, sales velocity across the tail seems to be coming off



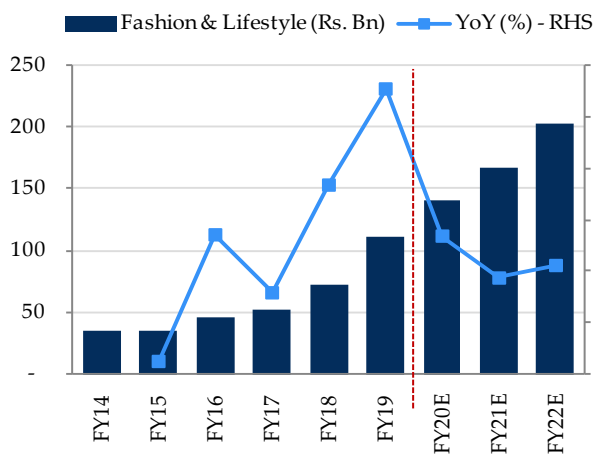
Source: Company, HDFC Securities, estimates used for VF forward retailers

Fig. 48: Ex V-MART, payables' support for the VF mass tail has been on the rise; SOMETHING'S GOT TO GIVE!



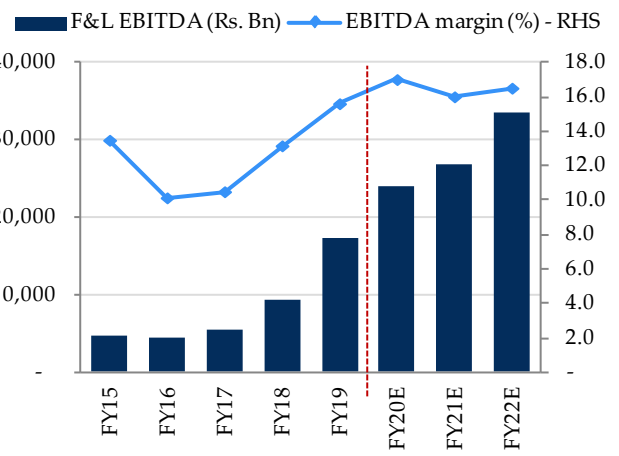
Source: Company, HDFC Securities, estimates used for VF forward retailers

Fig. 49: Building in 22% revenue CAGR (8.5% SSSG) in F&L



Source: Company, HDFC sec Inst Research estimates

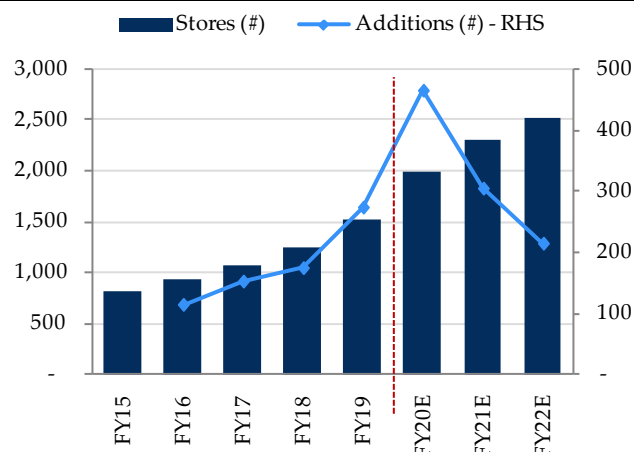
Fig. 50: ...and 24% EBITDA CAGR over FY19-22E



Source: Company, HDFC sec Inst Research estimates

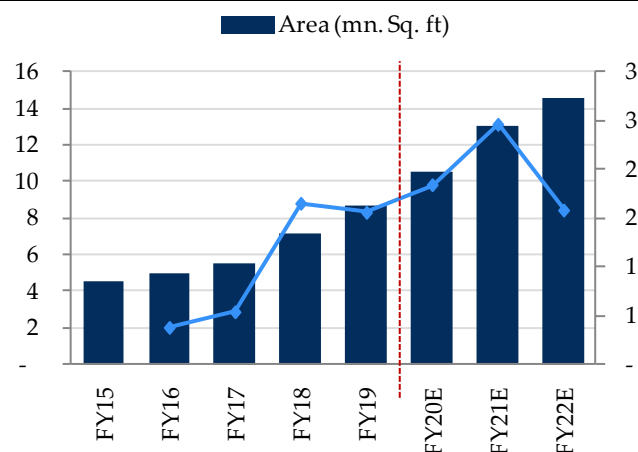
Reliance Retail: Company Update

Fig. 51: Expect a little under 1000 store additions in F&L



Source: Company, HDFC sec Inst Research estimates

Fig. 52: ...Building in 19% Area CAGR over FY19-22E (similar to FY16-19)



Source: Company, HDFC sec Inst Research estimates

Fig. 53: Reliance Retail's portfolio of formats/Brands

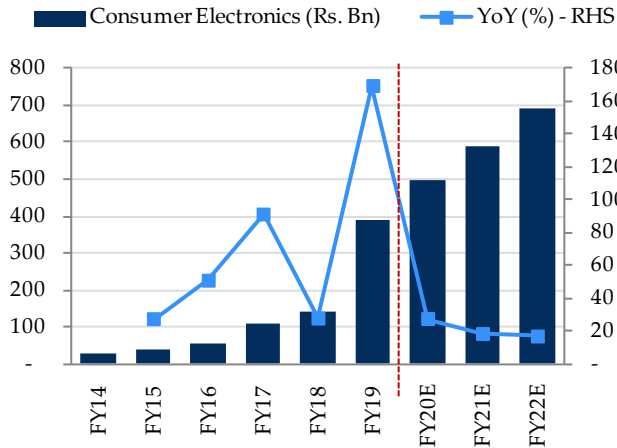
Business / Brand	Product / Service	End Uses
Ajio	Online fashion store	Curated online fashion store offering apparels, accessories, footwear and much more
Jio Stores	Speciality Store for mobility & communication	Latest assortment of mobiles, tablets, laptops, accessories
Project Eve	Apparel speciality store	Speciality stores catering to entire fashion & lifestyle needs of women
Reliance Digital	Electronics speciality store	Offering wide range of consumer electronics, home appliances, entertainment, gaming merchandise
Reliance Footprint	Footwear speciality store	Speciality stores dealing in footwear, handbags and accessories
Reliance Fresh	Neighbourhood store	Dealing in fresh fruits & vegetables, food, grocery and items of daily use
Reliance Jewels	Jewellery speciality store	Fine jewellery with offerings across gold, silver, diamond, precious stones and other precious metals
Reliance Market	Wholesale cash & carry store	Dealing in grocery, clothing, footwear, electronics and general merchandise
Reliance Resq	Consumer electronics after sales service provider	Service provider for consumer electronic products
Reliance Smart	Supermarket	Dealing in fresh fruits & vegetables, food, clothing, footwear, electronics and general merchandise
Reliance Smart.in	Online grocery store	Dealing in fresh fruits & vegetables, food and general merchandise
Reliance Trends	Apparel speciality store	Offers wide range of apparel, handbags, footwear and accessories
Reliance Trends Woman	Apparel speciality store	Offers curated collections of Indian women wear and accessories
Reliance Trends Man	Apparel speciality store	Offers curated collections of Indian men wear and accessories
In-store Brand		
Avaasa	Ethnic Indianwear inspired by Indian ethos and art forms	Apparel for women
DNMX	Denim inspired casuals	Apparel for men, women and children
Netplay	Smart casuals for the free spirited	Apparel for men
Performax	Activewear for sports and fitness	Apparel and footwear for men, women and children
Point Cove	Smart casuals for kids inspired by California	Apparel for children
Teamspirit	Sport Inspired Casualwear	Apparel for men, women and children
LYF	4G Mobile Handsets and Connectivity Devices	Mobile and connectivity devices
Reconnect	Exclusive Brand from Reliance Digital	Electronic gadgets and accessories
Enzo Matic	Detergent Powder brand	Detergent
Best Farms	Premium Grade Farm Produce brand	Food
Good Life	Clean, Hygienic and Wholesome products brand	Food
Scrubz	Dishwash liquid brand	Dishwash liquid
Freshomz	Room Freshener brand	Room Freshener
Expelz	Toilet Cleaner Brand	Liquid toilet cleaner
Graphite	Men's deodorant and perfumes	Men's deodorant and perfumes
Mopz	Surface cleaner brand	Liquid surface cleaner
John Players	Menswear	Men's apparel and accessories

Fig. 54: Exclusive Brand Partnership

Business / Brand	Product / Service	End Uses
Armani Exchange	Unisex casual wear brand from the Armani house, its global in spirit, this is a brand for the young citizens	Casual wear, Denims
Bally	World's second oldest luxury brand	Shoes, bags and fashion accessories
Bottega Veneta	Italian Luxury accessories brand, founded in 1966, known for discretion, quality, and craftsmanship	Luxury bags, Shoes, Accessories
Brooks Brothers	American iconic brand that has redefined & shaped classic American style for nearly two centuries	Apparel and accessories for men
Canali	Tailor-made Italian luxury men's wear, leader for more than 80 years.	Men's formal wear
Cherokee	Iconic American family lifestyle brand	Apparel and accessories for kids
Coach	Founded in 1941, Coach is a leading design house of modern luxury accessories and lifestyle collections with an all-American attitude	Bags & Accessories
DC	American sportswear brand inspired by skateboarding and snowboarding	Apparel, accessories, footwear and skateboards
Diesel	Iconic Italian lifestyle brand	Apparel, accessories and footwear
Dune	Distinctive fashion footwear & accessories	Accessories and footwear for men and women
Emporio Armani	Emporio Armani is a sub label of Giorgio Armani, includes ready-to-wear clothes, sunglasses, perfume, accessories and watches.	Luxury Men's wear and Women's wear
Ermenegildo Zegna	Italian luxury men's clothing	Apparel, accessories and footwear for men
Flormar	Leading beauty and colour cosmetic brand	Colour cosmetic products
Furla	Furla deals in Italian handbags, shoes and accessories since 1927. These collections are constructed with high quality craftsmanship and contemporary style	Luxury Bags, Shoes and Accessories
Giorgio Armani	Italian label founded in 1975, known for clean tailored lines and unisex occasion wear	Luxury Men's wear and Women's wear
GAS	Italian clothing brand offering quality products for intelligent, aware consumers, with an international, cosmopolitan attitude	Apparel, accessories and footwear for men & women
G Star Raw	G-Star RAW is a Dutch designer clothing company, known for technologically advanced denims	Denim, casual wear
Hamleys	The finest toy shop in the world	Toys
Hugo Boss	German brand founded in 1924, Sophisticated, modern and iconic Men's wear label, market leaders in the upper premium segment of the global apparel market.	Men's wear, formal and semi formal
Hunkemoller	Leading European lingerie brand	Lingerie, nightwear, swimwear and accessories
ICONIX	Diversified portfolio of fashion and home brands	Apparel, footwear, accessory and home fashion
Istore	Exclusive Apple Products Store	Mobile, Laptops and Connectivity Devices
Jimmy Choo	Jimmy Choo is a 21st century luxury accessories brand, with shoes at its heart, more than 150 stores and is present in the most prestigious department and specialty stores worldwide	Women's footwear and accessories
Kate Spade	Accessible luxury for women	Handbags, small leather goods, apparel and footwear
Marks & Spencer	Iconic British lifestyle brand	Apparel for women, men and children, lingerie, beauty and home décor
Michael Kors	Luxury accessories and ready-to-wear brand established in 1981. Products include accessories, footwear, watches, jewelry, men's and women's ready-to-wear apparel, eyewear and a full line of fragrance products.	Bags, Footwear and accessories
MUJI	Iconic Japanese lifestyle brand	Accessories, home, apparel, travel, beauty, stationery, etc.
Paul & Shark	Italian luxury and casual sportswear brand	Apparel, accessories and footwear for men
Paul Smith	Paul Smith is Britain's foremost designer, he combines tradition and modernity for his Men's wear high fashion and formalwear label	Men's formal wear
Payless	Affordable fashion footwear specialty store	Footwear, handbags and accessories
Thomas Pink	British shirt authority	Apparel and accessories for men
Quiksilver	Premium youth Lifestyle and culture clothing brand representing action sports	Apparel, accessories, footwear, skateboards and surfboards
Roxy	Global lifestyle brand, offering products for every aspect of an active girl's life	Apparel, accessories, swimwear and footwear for girls
Scotch & Soda	European couture brand	Shoes, bags and fashion accessories
Steve Madden	Fashion forward Footwear & Accessories Brand	Accessories and footwear for men and women
Superdry	Fashion brand that fuses design influences from Japanese graphics and vintage Americana, with the values of British tailoring	Apparel, accessories and footwear
TUMI	Founded in 1975, leading international business, accessory and travel lifestyle brand.	Travel bags, wallets and Bags
Villeroy & Boch	Luxurious and timeless pieces since 1748 for bathroom and wellness, tableware and tiling. Headquartered in Germany, this large manufacturer of ceramics specialises in innovative products	Tableware
Vision Express	Optical specialty store	Spectacles, sunglasses, contact lenses and eyewear care accessories

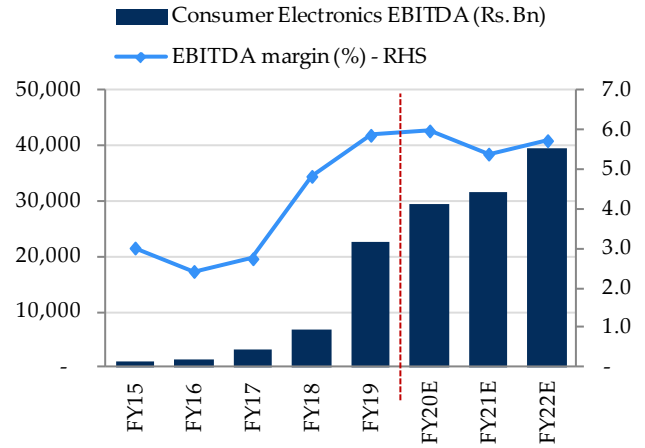
- Consumer Electronics (CE) growth to moderate:** CE is RR's biggest (~Rs. 49.5bn) and fastest growing segment (59% CAGR over FY14-20E) and now accounts for 51% of core retail revenue (up from 41% in FY18). The big revenue bump up came in 4QFY18 courtesy JIO phone/device launch. However, growth in consumer electronics will cool off as 1. Revenue from JIO devices moderate, 2. High base effect. Hence we build in moderating growth in core CE ie ex-JIO devices of ~18% CAGR (7% SSSG) over FY19-22E.

Fig. 55: Consumer electronics (CE) growth to remain healthy, albeit will cool off over FY19-22E



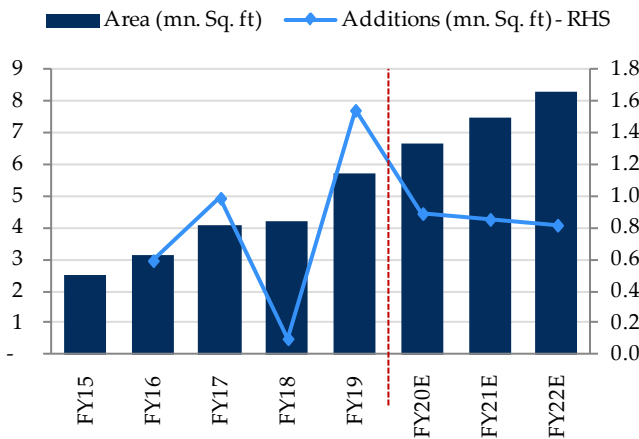
Source: Company, HDFC sec Inst Research

Fig. 56: ... EBITDA margins to moderate too as JIO device sales cool off



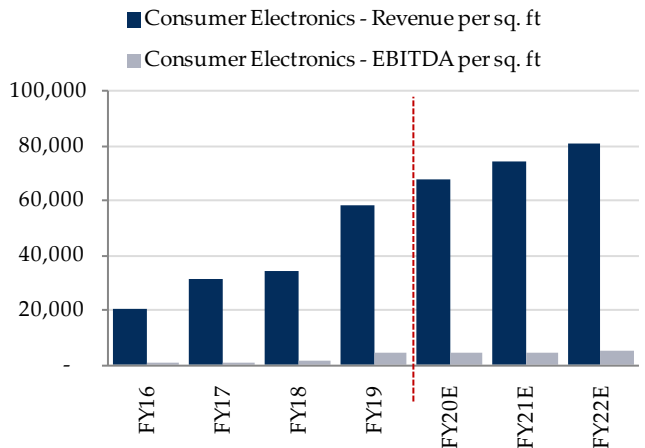
Source: Company, HDFC sec Inst Research

Fig. 57: Building in Area CAGR of 13% in CE over FY19-22E



Source: Company, HDFC sec Inst Research

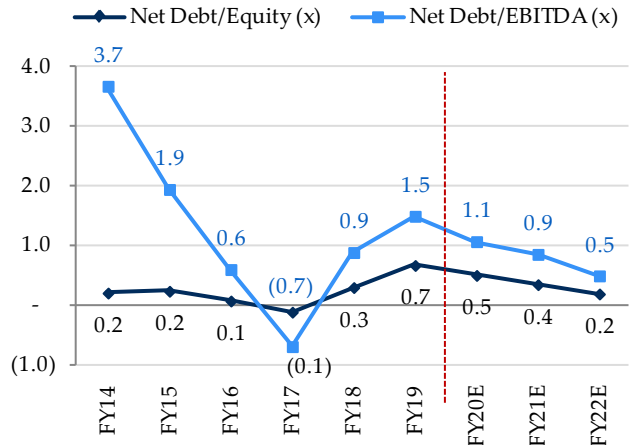
Fig. 58: Sales velocity/EBITDA per sq. ft to remain healthy



Source: Company, HDFC sec Inst Research

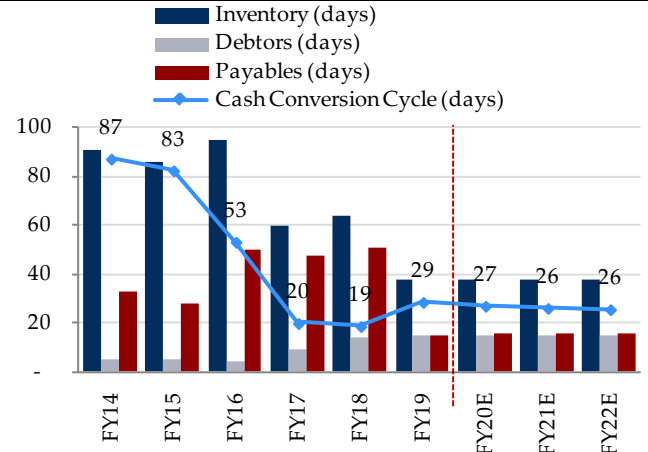
Reliance Retail: Company Update

Fig. 59: Leverage position remains comfortable, inching up though!



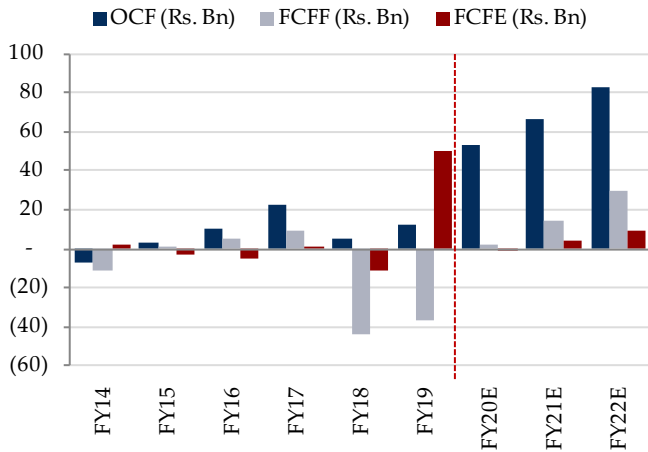
Source: Company, HDFC sec Inst Research

Fig. 60: FY19 saw moderation in payables, expect a steady working capital over FY19-22E



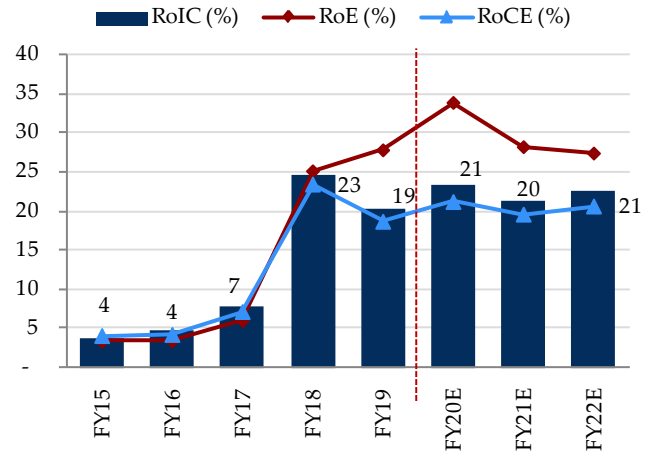
Source: Company, HDFC sec Inst Research

Fig. 61: Inching closer to free cash generation



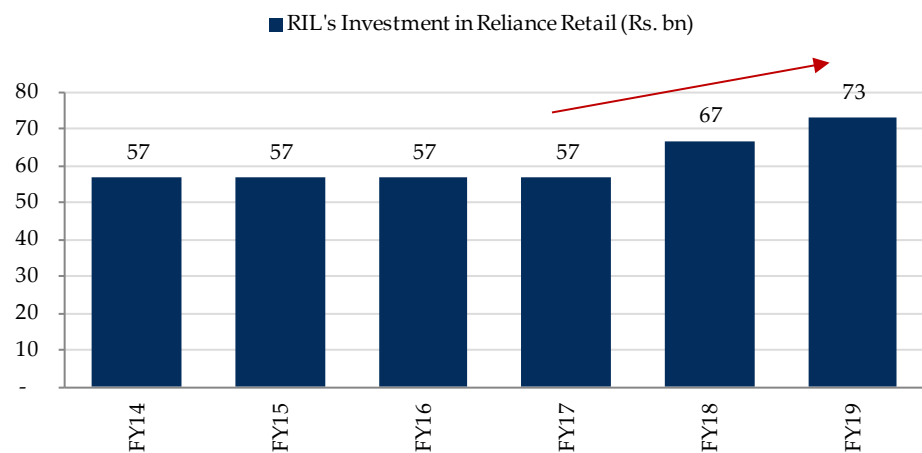
Source: Company, HDFC sec Inst Research

Fig. 62: Returns profile to remain steady



Source: Company, HDFC sec Inst Research

Fig. 63: RIL putting money where its mouth is...investments in RRVL increasing



Source: Company, HDFC sec Inst Research

The COVID-19 Impact

- The 21-day India lockdown (effective 25-Mar-2020 onwards) courtesy the COVID-19 outbreak will impact RRVL's operations too (especially ex-grocery segments). While the situation remains fluid, and we must confess, do that extent our estimates, we have tried to estimate the impact on earnings if there is a 1 month lock-down in India
- We have estimated a one-month washout in F&L and Consumer Electronics as stores remain. The subsequent footfall loss and slow recovery underpins the 3-4%/10-14% revenue/EBITDA cut in FY21/22E.
- We've cut Consumer electronics revenue by 5-5.5% and EBITDA margin by 60-100bp in FY21/22. Note: The margin cut is extended to FY22 also in part due to the ever-heightening competitive intensity in the category courtesy e-tail.
- F&L revenue takes a haircut of 5% each in FY21/22. Note the COVID-19 Impact is expected to fasten the inventory liquidation process by the value fashion tail (already dealing with burgeoning working capital) once the lock-down is lifted. Reliance Trends, as a result, may find itself competing in a market froth with extended discounts. Hence, the 125-170bp EBITDA margin cut for the F&L biz in FY21/22.

Fig. 64: Estimate changes

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	1,468,069	1,514,654	(3.1)	1,729,958	1,792,556	(3.5)	2,039,179	2,087,308	(2.3)
Gross Profit	209,724	216,379	(3.1)	248,002	256,976	(3.5)	293,351	300,274	(2.3)
Gross Profit Margin (%)	14.3	14.3	0 bps	14.3	14.3	(0 bps)	14.4	14.4	(0 bps)
EBITDA	89,460	97,612	(8.4)	102,579	118,864	(13.7)	128,710	142,948	(10.0)
EBITDA margin (%)	6.1	6.4	(35 bps)	5.9	6.6	(70 bps)	6.3	6.8	(54 bps)
APAT	55,067	61,148	(9.9)	62,227	74,612	(16.6)	79,659	91,054	(12.5)
APAT margin (%)	3.8	4.0	(29 bps)	3.6	4.2	(57 bps)	3.9	4.4	(46 bps)
EPS (Rs)	9.2	10.2	(9.9)	10.4	12.4	(16.6)	13.3	15.2	(12.5)

Gross Revenue Split (Rs. mn)	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Grocery	330,016	340,863	(3.2)	434,899	446,934	(2.7)	549,301	562,998	(2.4)
Consumer Electronics	495,671	513,738	(3.5)	588,362	619,188	(5.0)	689,524	729,784	(5.5)
Connectivity	539,135	549,646	(1.9)	603,831	615,603	(1.9)	694,406	677,164	2.5
Fashion & Lifestyle	141,361	147,388	(4.1)	167,755	176,285	(4.8)	203,160	214,659	(5.4)
Petro Retail	139,307	146,070	(4.6)	144,183	151,182	(4.6)	149,230	154,962	(3.7)
Total Gross Revenue (Rs. mn)	1,645,490	1,697,705	(3.1)	1,939,029	2,009,193	(3.5)	2,285,620	2,339,566	(2.3)

Reliance Retail: Company Update

Fig. 65: RRVL – is one of the fastest growing retailers; model has demanded heavy investments to back that growth though!

	FY14	FY15	FY16	FY17	FY18	FY19	Total
Cash from Operations (excl WC change)	3,527	7,477	7,674	11,846	21,218	51,471	103,214
Other Income	467	198	50	232	54	228	1,229
Total	3,994	7,676	7,724	12,079	21,272	51,699	104,443
Application of funds (Rs bn)							
Working Capital	10,771	4,475	(2,657)	(10,529)	16,063	39,067	57,189
Capex	4,139	2,309	5,203	13,594	49,336	49,638	124,218
Investments	-	-	-	-	-	33,801	33,801
Dividend	-	-	-	-	-	-	-
Proceeds from equity/pref. Issuance	2,017	-	-	-	(10,485)	(7,377)	(15,845)
Borrowings	(13,773)	2,427	9,449	7,090	(34,266)	(93,840)	(122,913)
Others	209	(667)	(4,100)	652	996	29,108	26,199
Net change in cash	631	(868)	(171)	1,271	(371)	1,302	1,794
Total	3,994	7,676	7,724	12,079	21,272	51,699	104,443
Cumm. WC + Capex as % of sources of funds (FY14-19)							174

Source: Company, HDFC sec Inst Research

Fig. 66: SOTP - Valuation

	Revenue (Rs. Mn)	FY22 EBITDA (Rs. Mn)	Target EV/EBITDA (x)	EV (Rs. Mn)	Rev CAGR (FY19-22E)	EBITDA CAGR (FY19-22E)	Comments
Grocery	434,899	41,747	25	1,043,673	33.1	44.9	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	167,755	33,521	20	670,427	22.2	24.9	@ par with market leader V-MART (Closest competitor)
Consumer Electronics	588,362	39,484	15	592,257	21.1	22.3	Great Franchise but category at risk of increasingly moving online
Connectivity	603,831	11,624	5	58,119	14.9	13.9	Commodity biz. Just a master distributor
Petro Retail	144,183	1,788	5	8,941	3.0	1.9	Commodity biz
Total	1,939,029	128,164	18.5	2,373,417			
Net Debt				88,812			
Equity Value (Rs. Mn)				2,284,605			
Per Share (Rs.) on RRVL count				381			
Per Share (Rs.) on RIL count				386			
Core Retail		114,752	20.1	2,306,357			

Source: Company, HDFC sec Inst Research, Per share equity value on RRVL share count*

Financials

Consolidated Income Statement

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Net Revenues	175,485	209,282	333,311	621,616	1,163,575	1,468,069	1,729,958	2,039,179
Growth (%)		19.3	59.3	86.5	87.2	26.2	17.8	17.9
Material Expenses	139,375	171,176	277,862	544,196	997,931	1,258,345	1,481,956	1,745,828
Employee Expense	5,401	5,938	7,380	8,296	10,784	12,872	13,438	14,820
A&P Expense	7,633	7,241	6,945	7,413	8,994	12,081	14,582	17,597
Other selling and distribution Expense	2,785	2,383	8,037	15,165	27,924	35,231	41,516	48,937
Other Expenses	12,776	13,816	21,248	13,652	57,184	60,080	75,887	83,287
EBITDA	7,515	8,729	11,840	32,894	60,758	89,460	102,579	128,710
EBITDA Growth (%)		16.1	35.6	177.8	84.7	47.2	14.7	25.5
EBITDA Margin (%)	4.3	4.2	3.6	5.3	5.2	6.1	5.9	6.3
Depreciation	3,489	3,465	3,950	4,646	6,553	9,802	13,579	17,776
EBIT	4,026	5,263	7,890	28,248	54,204	79,658	89,000	110,934
Other Income (Including EO Items)	748	213	379	467	826	3,103	3,539	4,413
Interest	1,508	1,180	645	1,004	6,210	10,095	10,400	10,019
PBT	3,266	4,296	7,624	27,711	48,820	72,666	82,138	105,328
Total Tax	1,224	1,686	3,177	6,536	17,136	18,290	20,674	26,511
PAT before share of associate earnings	2,042	2,610	4,446	21,175	31,684	54,376	61,464	78,817
Share of associate earnings	(1)	(380)	(160)	237	600	660	726	799
RPAT	2,041	2,230	4,286	21,413	32,284	55,036	62,191	79,616
Exceptional Gain/(loss)	-	-	-	-	-	-	-	-
Adjusted PAT	2,041	2,230	4,286	21,413	32,284	55,036	62,191	79,616
APAT Growth (%)	6.0	9.2	92.2	399.6	50.8	70.5	13.0	28.0
Adjusted EPS (Rs)	0.3	0.4	0.7	3.6	5.4	9.2	10.4	13.3
EPS Growth (%)	6.0	9.2	92.2	399.6	50.8	70.5	13.0	28.0

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
SOURCES OF FUNDS								
Share Capital - Equity	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Reserves	1,008	9,003	13,544	36,867	75,309	129,685	191,149	269,966
Total Shareholders Funds	61,008	69,003	73,544	96,867	135,309	189,685	251,149	329,966
Minority Interest	28	(92)	(224)	239	1,116	1,116	1,116	1,116
Long Term Debt	37	11	2	-	3	3	3	3
Short Term Debt	16,783	7,302	212	34,480	128,317	136,317	136,317	126,317
Total Debt	16,820	7,313	214	34,480	128,320	136,320	136,320	126,320
Net Deferred Taxes	(5,998)	(10,540)	(9,057)	(6,801)	(798)	(798)	(798)	(798)
Other Non-current Liabilities & Provns	1,561	130	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	73,419	65,814	64,477	124,786	263,947	326,323	387,787	456,604
APPLICATION OF FUNDS								
Net Block	27,179	21,911	24,482	34,362	75,898	117,479	155,799	191,042
CWIP	4,304	5,435	7,407	41,635	43,664	43,664	43,664	43,664
Other Non-current Assets	-	5,769	5,758	11,243	15,101	15,101	15,101	15,101
Total Non-current Assets	31,483	33,115	37,647	87,239	134,663	176,244	214,563	249,806
Inventories	41,170	54,507	54,240	108,223	119,784	151,130	178,090	209,923
Debtors	2,324	2,652	8,550	24,459	47,649	60,119	68,947	81,271
Other Current Assets	14,523	10,204	10,639	23,209	24,247	26,253	26,197	25,292
Cash & Equivalents	2,170	2,035	8,372	5,195	37,260	40,325	48,155	62,168
Total Current Assets	60,187	69,397	81,801	161,086	228,941	277,826	321,390	378,654
Creditors	13,425	28,765	43,114	87,099	47,027	63,355	74,657	88,001
Other Current Liabilities & Provns	4,826	7,933	11,857	36,441	52,630	64,392	73,509	83,855
Total Current Liabilities	18,251	36,698	54,971	123,540	99,657	127,747	148,166	171,857
Net Current Assets	41,936	32,699	26,830	37,546	129,284	150,079	173,224	206,798
TOTAL APPLICATION OF FUNDS	73,419	65,814	64,477	124,786	263,947	326,323	387,787	456,604

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

Year ending March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Reported PBT	3,266	4,296	7,624	19,476	48,821	72,666	82,138	105,328
Non-operating & EO Items	(266)	37	390	1,021	301	(3,103)	(3,539)	(4,413)
Interest Expenses	1,508	1,180	645	1,004	6,210	10,095	10,400	10,019
Depreciation	3,489	3,465	3,950	4,646	6,553	9,802	13,579	17,776
Working Capital Change	(4,475)	2,657	10,529	(16,063)	(39,067)	(17,731)	(15,314)	(19,562)
Tax Paid	(519)	(1,304)	(762)	(4,929)	(10,414)	(18,290)	(20,674)	(26,511)
OPERATING CASH FLOW (a)	3,003	10,331	22,375	5,155	12,404	53,438	66,591	82,637
Capex	(2,309)	(5,203)	(13,594)	(49,336)	(49,638)	(51,382)	(51,899)	(53,019)
Free Cash Flow (FCF)	694	5,129	8,781	(44,180)	(37,234)	2,056	14,692	29,618
Investments	-	-	-	-	(33,801)	-	-	-
Non-operating Income	2,453	5,330	224	62	228	3,103	3,539	4,413
INVESTING CASH FLOW (b)	145	127	(13,370)	(49,274)	(83,211)	(48,279)	(48,360)	(48,606)
Debt Issuance/(Repaid)	(4,015)	(10,630)	(7,735)	33,262	87,657	(2,095)	(10,400)	(20,019)
FCFE	(3,321)	(5,501)	1,047	(10,918)	50,423	(39)	4,292	9,599
Share Capital Issuance	-	-	-	10,485	7,377	-	-	-
Dividend	-	-	-	-	-	-	-	-
Others	-	-	-	-	(22,924)	-	-	-
FINANCING CASH FLOW (c)	(4,015)	(10,630)	(7,735)	43,747	72,109	(2,095)	(10,400)	(20,019)
NET CASH FLOW (a+b+c)	(868)	(171)	1,271	(371)	1,302	3,064	7,831	14,012
EO Items, Others	-	-	-	1	1	1	1	1
Closing Cash & Equivalents	1,949	1,632	2,903	2,531	4,096	7,161	14,992	29,004

Source: Company, HDFC sec Inst Research

Key Ratios

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
PROFITABILITY (%)								
GPM	20.6	18.2	16.6	12.5	14.2	14.3	14.3	14.4
EBITDA Margin	4.3	4.2	3.6	5.3	5.2	6.1	5.9	6.3
EBIT Margin	2.3	2.5	2.4	4.5	4.7	5.4	5.1	5.4
APAT Margin	1.2	1.1	1.3	3.4	2.8	3.7	3.6	3.9
RoE	3.4	3.4	6.0	25.1	27.8	33.9	28.2	27.4
RoIC (or Core RoCE)	3.7	4.7	7.7	24.6	20.3	23.3	21.3	22.6
RoCE	4.1	4.2	7.2	23.4	18.7	21.2	19.6	20.6
EFFICIENCY								
Tax Rate (%)	37.5	39.3	41.7	23.6	35.1	25.2	25.2	25.2
Fixed Asset Turnover (x)	4.7	5.6	7.8	11.1	12.6	10.2	8.8	8.2
Inventory (days)	85.6	95.1	59.4	63.5	37.6	37.6	37.6	37.6
Debtors (days)	4.8	4.6	9.4	14.4	14.9	14.9	14.5	14.5
Other Current Assets (days)	30.2	17.8	11.6	13.6	7.6	6.5	5.5	4.5
Payables (days)	27.9	50.2	47.2	51.1	14.8	15.8	15.8	15.8
Other Current Liab & Provns (days)	10.0	13.8	13.0	21.4	16.5	16.0	15.5	15.0
Cash Conversion Cycle (days)	82.7	53.5	20.2	19.0	28.9	27.3	26.4	25.9
Net D/E (x)	0.2	0.1	(0.1)	0.3	0.7	0.5	0.4	0.2
Interest Coverage (x)	2.7	4.5	12.2	28.1	8.7	7.9	8.6	11.1
PER SHARE DATA (Rs)								
EPS	0.3	0.4	0.7	3.6	5.4	9.2	10.4	13.3
CEPS	0.9	0.9	1.4	4.3	6.5	10.8	12.6	16.2
Book Value	10.2	11.5	12.3	16.1	22.6	31.6	41.9	55.0
VALUATION								
P/E (x)	1,121.0	1,026.1	533.8	106.9	70.9	41.6	36.8	28.7
P/BV (x)	37.5	33.2	31.1	23.6	16.9	12.1	9.1	6.9
EV/EBITDA (x)	316.2	272.2	200.7	72.2	39.1	26.6	23.2	18.5
EV/Revenues (x)	13.5	11.4	7.1	3.8	2.0	1.6	1.4	1.2
OCF/EV (%)	0.1	0.4	0.9	0.2	0.5	2.2	2.8	3.5
FCF/EV (%)	0.0	0.2	0.4	(1.9)	(1.6)	0.1	0.6	1.2
FCFE/Mkt Cap (%)	(0.1)	(0.2)	0.0	(0.5)	2.2	(0.0)	0.2	0.4
Dividend Yield (%)	-	-	-	-	-	-	-	-

Source: Company, HDFC sec Inst Research

Reliance Retail: Company Update

Disclosure:

We, **Jay Gandhi, MBA & Rutvi Chokshi, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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