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Analysts wary about investment in 'unrelated' sectors, insiders say retail will break even by month-end

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Reliance Industries, the country's largest company, is expanding investment in its telecom and retail businesses by up to Rs 6,500 crore a year for the next five years, beginning April 1.

By the end of five years, the company will invest close to an additional Rs 13,500 crore in telecom and another Rs 19,500 crore in the retail business, say analysts.

While Reliance did not disclose plans for 2013-14, analysts say it will be investing a massive \$28 billion (Rs 151,000 crore) in its core oil, gas, refining and petrochem sectors in the next five years.

"In the telecom space, RIL refrained from bidding in the

900 MHz auction, which, in our eyes, suggests discipline on capital employed. This had been our key concern earlier, which we now believe is largely resolved," says Morgan Stanley's Vinay Jaising. The telecom business will receive Rs 2,700 crore a year for the rollout of services, while retail will receive investments of close to Rs 3,800 crore a year.

While analysts are wary about Reliance investing cash in the "unrelated" retail and telecom sectors, insiders say of these two, retail would break even by this month-end.

"Reliance intends to invest aggressively in its non-core business such as telecommunication/internet and retail sectors. These segments are viewed as important growth engines for the company in the



WHERE RIL IS PUTTING ITS MONEY

Estimates in \$ in 5 years

Investments
₹ crore for 5 yrs

Sector	Investments ₹ crore for 5 yrs
Total	1,81,358
Oil & Gas	73,094
Petrochem	48,185
Refining	27,074
Retail	19,491
Telecom	13,536

coming years. As such, RIL is expected to be a beneficiary of

the above proposal to the extent of investment allowance claim expected to be made by the company in FY14 and FY15," said D R Dogra, head of CARE Ratings.

Reliance insiders say a part of the cash in the telecom business will be used to set up a tower company and the company is open to offer a part of the stake to a foreign partner. Media reports say Reliance is in talks with AT&T to sell 25 per cent stake but an RIL official said nothing had been finalised on any partner or the valuation of the company.

The company is more bullish on the prospects of the retail company, where it is investing a massive Rs 19,500 crore in five years. RIL's retail turnover grew 44 per cent during the December quarter to

Rs 7,749 crore, with analysts expecting it to show 30 per cent annual growth over the next five years.

After several rounds of restructuring in the top management at the retail sector, RIL is investing in the expansion from the present 1,400 stores. As of now, Reliance has a retail space of eight million sq ft, next to the largest retailer, Pantaloon, with 16 million sq ft.

Insiders say existing stores are seeing growth between 10 per cent yearly for garments and 25 per cent for foods, and that scalability of existing stores is a key profit driver. Group chairman Mukesh Ambani has set a target of \$8-9 billion turnover by FY16, a highly ambitious annual growth of 50 per cent.