

September 2022



In December 2020, we concluded our monthly bulletin: “We’ll be hearing a lot more about Mukesh Ambani, Reliance and Jio in the years to come.” True to form, Mukesh Ambani recently announced his next showstopper: cheap green energy. So, it felt like an appropriate time to revisit the story and share our views.

Reliance traces its roots back to 1960s textiles when Mukesh’s father, Dhirubhai Ambani, co-founded Reliance Commercial Corporation. From there, it entered the petrochemical industry in a series of ever-bolder ‘backwards integrations’, which now see it operating the world’s largest and most modern oil refinery. In 2015, Reliance embarked on its next mission – an expensive one at that, bringing affordable telecom services to the masses. At the time, data prices were \$3 per gigabyte, with the average Indian income less than \$4 per day. Fast

forward to today and users can indulge their appetite at \$0.17 per gigabyte, while the percentage of the Indian population using the internet has grown from 17 per cent to 43 per cent.

Recently the company has been performing exceptionally well. Reliance Jio is the number one ranked telecom operator in India, with over 400 million users. Since March 2020, Jio data usage has nearly doubled, with the average revenue per user growing by almost 50 per cent. Jio’s recent focus has been on rolling out 5G coverage to major Indian cities, with more rural areas in the pipeline, enhancing the customer offering further. Reliance Retail has rebounded strongly from pandemic lows, recording its highest ever operating income, up 98 per cent year on year. The retail business continues to expand. It added almost 1,600 stores in the first half of 2022, taking the total store count to 15,866.



More than half of the company's revenue is generated by the refining business, which has benefited from the demand squeeze on refining products – which can vary from jet fuel to rubber to plastic packaging. The current environment has buffered margins in the short term. Still, the scale and efficiency of Reliance's operations give us confidence that it can maintain its leading global position, particularly as investment into new refining assets is dwindling. Reliance has a unique opportunity – to use the cashflows and expertise from its existing refining business to develop world-leading green energy capabilities, which Mukesh Ambani believes could “outshine all existing growth engines in just five to seven years”.

The Green Energy Giga Complex (5,000 acres in Jamnagar) will include production capacity for solar panels, energy storage systems, electrolyzers and fuel cells. It will be among the world's largest integrated renewable energy manufacturing facilities. One of Reliance's targets is to enable at least 100 GW of solar energy by 2030 (roughly one-fifth of India's 2030 renewables target). The most exciting opportunity is green hydrogen, where costs currently range between \$2.2 and \$4.6 per kilogram. Reliance is targeting a punchy \$1 per kilogram. The green initiatives are in their early stages, but so far we have seen around \$2bn of investment into new energy. This has gone mainly towards buying up smaller specialist businesses to support the ambitions, with a whopping \$75bn more pledged to the cause.

“Just as India has the world's most affordable wireless broadband today, we will have the world's most affordable green energy within this decade,” Mukesh Ambani has pledged. The businessman has pinned his legacy on delivering cheap green energy to India, but at age 65 many market commentators have questioned if he can keep up his electrifying pace. However, it's clear that he is keen to avoid repeating history. Brothers Mukesh and Anil Ambani waged corporate warfare 20 years ago after their father died without leaving a will. Mukesh emerged victorious, but it appears he has been thinking through the changing of the guard for some time. In 2014, he added his eldest son to the board of the telecom business and his eldest daughter to the board of the retail business, while his youngest son, Anant, is tipped to lead the front on new energy. Mukesh Ambani has proven himself to be a visionary, as his father was before him, but we are watching the succession plan with keen interest.

Reliance provokes an interesting dilemma that highlights the importance of bottom-up analysis when it comes to socially responsible investing. A quick look at some external ESG rating agencies (where analysts tend to look at inputs and policies rather than real-world outcomes) will tell you that Reliance scores poorly on digital inclusion, despite Jio's impact. Reliance's production of single-use



plastic has also made headlines, but in most cases, these plastics are used to improve health and safety for those that need it most, for example with bottled water. To us, in so many respects, Reliance's societal pros significantly outweigh the cons, but we will continue to engage with the company on the issues that we believe are most relevant to the investment case: succession planning, green energy roll-out, water recycling and plastic recycling.

Mukesh Ambani's recent announcements are reminiscent of 2015 when many doubted that Reliance, the petrochemicals company, could achieve its telecoms ambitions. However, despite all odds, in the last seven years the company has dramatically changed life in India while delivering more than a quadrupling of value to shareholders. This next move may be considered more 'on-brand' due to Reliance's energy skillset, but the scale of the task is no less daunting. One thing is for sure. We'll be hearing a lot more about Mukesh Ambani, Jio and Reliance's renewable energy ecosystem in the years to come.

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