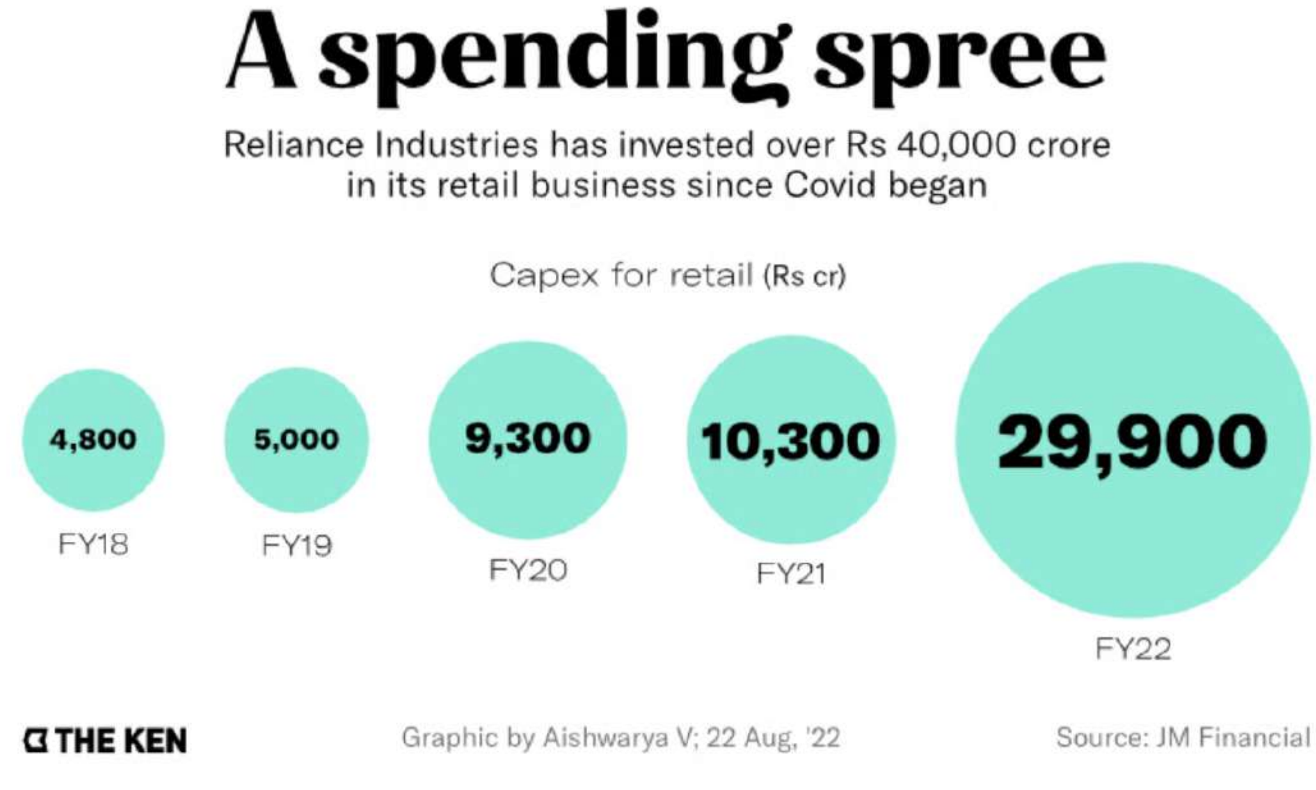
Reliance Retail's US$5B capex is proof it's more 'build' than 'buy'

Here's a number for you to digest slowly: Reliance Retail's capex in the two years since the pandemic has been Rs 40,000 crore (US$5 billion). Three-quarters of that were spent just in the year ended March 2022.



Maybe you think that number is so high because of all those acquisitions Reliance had made in that period. That was my conclusion too, at first glance.

But it couldn't be further from the truth.

Let's take the major deals Reliance Retail has made in the last two years. The largest was the acquisition of a two-thirds stake in search-and-listings company Just Dial. Reliance Retail paid over Rs 5,700 crore (US$714 million) for the company.

Then there was the Rs 1,490 crore (US$187 million) investment in hyperlocal-delivery startup Dunzo in January 2022; a Rs 980 crore (US$123 million) investment in robotics firm Addverb Technologies during the same month; and a Rs 950 crore (US$119 million) acquisition of lingerie brand Clovia in March. In 2020, it had paid Rs 800 crore ($100 million) for e-pharmacy Netmeds and furniture e-tailer Urban Ladder.

Between all these acquisitions and investments, Reliance spent roughly Rs 9,920 crore (US$1.2 billion).

Even if we were to assume it paid another US$400 million for its fashion label deals, which include big names like Abraham & Thakore and Ritu Kumar, and for the franchise rights to sandwich chain Pret A Manger and US convenience-store chain 7-Eleven, the total would still amount to just a third of Reliance Retail's capex of US$5 billion.

But wait, didn't Reliance manage to cleverly take over 900 of Future Group's 1,500 retail stores even though its US$3.4 billion deal to acquire the business fell through?

Yes, it did. And Reliance paid Rs 4,800 crore (US$600 million) to help Future meet its working-capital and lease-rental commitments. But these are operational expenses that aren't captured in a company's capex.

For argument's sake, even if this US$600 million is considered capex because it helped Reliance acquire a bunch of stores, its total capex in the two years to March 2022 would be US$5.6 billion. Of which the amount spent on acquisitions would be US$2.2 billion, or just 40%.

So, in reality, the lion's share of Reliance's spends hasn't gone towards buying companies. Instead, it's been spent on setting up thousands of retail stores across different segments and warehouses for its online ventures, such as grocery-first platform JioMart and fashion e-tailer Ajio.

Reliance Retail, on average, added seven stores every day in the year ended March 2022, according to RIL's annual report, and closed the period with roughly 15,200 stores. More than half of these are small stores selling handsets and recharge packs. But it also added more than 2,000 grocery and lifestyle stores, and extended JioMart's presence from around 200 cities to more than 260.

In fact, Reliance Retail is now so big that few acquisitions make a significant difference relative to its size, unless it's in a new category. Which means that expanding its business organically is more a necessity now than a choice.