Reliance Industries (RIL) has a "Buy 1 get 1" offer. And everyone wants a piece of this deal!

Let me clarify what is occurring, though: Reliance has ultimately chosen to sell off its financial services division. In a few months, it will float this on the stock exchanges as a distinct corporation. Jio Financial Services is what it will be named (JFS). Therefore, on July 20th, if you have one share of RIL in your account, you will be eligible to get one share of the new JFS. The demerger ratio is 1:1. And because it's a truly exciting new venture to bet on, investors are thrilled. Financial services currently generate a pitiful ₹1,500 crores in revenue. A drop in the Reliance bucket, that is. Consequently, investors are having the chance to get in early and profit from RIL.

But it's a narrow perspective. Indeed, since the announcement, the stock price has increased by more than 5%. However, Reliance had hinted at a potential listing for this a few years prior. And for decades now, it has been participating in the stock market game. Therefore, you would have to think that it doesn't need to use cheesy tactics. The other, more likely explanation is that Mukesh Ambani is unwilling to handle leverage-related problems. You see, before they can lend money out, the majority of finserv companies must first borrow it. And that increases the amount of debt. Investors may exercise caution if the finserv company is joined with other diverse businesses and consider the debt levels at the company's overall level.

Demerging and listing JFS effectively solves this issue.

Reliance has the ability to draw in a whole new group of investors for this company. Large institutional players may be interested in capitalizing on India's fintech boom, but they may not be interested in retail or oil and gas. ESG considerations won't be a concern for them either. It will resemble the manner in which Reliance persuaded Google and Meta to invest in Jio Platforms by guaranteeing them a pure portion of digital India.

Will JFS succeed, though?

That is, as of yet, unknown to us. It's difficult to take on the man who, in a single, decisive move, upended the telecom sector. So allow me to throw out a few points for you. First off, Reliance is investing heavily in its personnel. It originally appointed the illustrious KV Kamath of ICICI Bank renown as its chairman. Additionally, he has been adding seasoned professionals from the banking sector. Thus it's hard to argue that Reliance lacks the leadership skills to oversee the operation.

Second, Reliance is currently in the best position of all parties if you consider that distribution is king in the financial services industry. With the 400 million Jio telecom customers, the hundreds of Reliance

Retail locations that get close to 800 million visits annually, and the two million merchants who have signed up for the JioMart food platform, JFS will have instant access to a captive audience.

Thus, the chance is available for the taking.

especially in light of the fact that conservative estimates indicate that 50% of Reliance's clientele use credit. However, as Reliance hasn't established a significant footprint in the financial services sector yet, the majority of them most likely rely on companies like Bajaj Finance. Reliance is currently the originator of the credit business from its consumers, but it is completed by other financial services organizations, according to what one RIL executive told Business Standard. They provide Reliance a small fee, which is typically passed forward to the customers at a discounted cost. We have knowledge and understanding of the industry, but we don't handle it alone.

That will change now that JFS is involved. Reliance will now make more money than just a charge. and might steal business.And might steal clients from competitors.

Lastly, it also possesses all the necessary finserv building blocks. For example, a business needs to make sure that it can obtain funding at a reasonable price. Only then will it be able to offer competitive loans at affordable interest rates. Since Jio is now supported by Reliance, it will have an excellent AAA credit rating right away. Its work is made easier by this. more so since that rating is held by just five other sizable NBFCs.

There's also the issue of making sure your underwriting is reasonable. that you make sure the people who borrow can afford to pay it back on schedule and that you're not just giving out credit at random. Let's also add that Reliance likely has access to the kind of consumer behavior data that no other firm in India does at the moment. It can readily track spending behavior and has businesses in almost every industry. That must aid in the evaluation process for a financial services organization, don't you think?

In handling all of this, keep in mind that there are also wealthy parties involved. In essence, Reliance will transfer a large number of its own shares to its financial services division.

As a result, JFS will possess almost 6% of RIL, giving it an initial net worth of more than ₹1 lakh crore. In terms of net worth, it instantly rises to become the fifth-largest financial services company in India.That makes sense, so you can understand why investors in other financial services firms are already a little on edge.Following the announcement, the value of the shares of Paytm and Bajaj Finance both decreased. Yes, that might just be a coincidence. However, it's difficult to write that off as a coincidence.

Everyone does appear to be a little frightened of the Reliance juggernaut. We must note, however, that there is still fierce rivalry in the market despite all of these positive factors. And lastly, it will be more difficult to achieve your goal of a disruption akin to that of telecom. For in this case, Reliance might also be up against banks. Furthermore, the RBI is not very fond of large corporate companies managing banks, despite the fact that JFS is likely to attempt to obtain a banking licence. For the time being, they don't mind if they handle only NBFCs. Furthermore, as Macquarie Research notes, it cannot raise low-cost deposits from clients with an NBFC license. As a result, funding for it will be more expensive than through banks. Therefore, it is also unable to significantly undercut them by providing extraordinarily low interest rates on loans. Then there's the unavoidable venture into asset management, brokerage, and insurance. You should anticipate fierce competition for JFS in

Which brings up the crucial query: Should you purchase RIL in order to obtain Jio stock? To be honest, you ought to put money into a business only if you have genuine faith in its future. And not because it's luring you in with an alluring offer. We are not even aware of the JFS roadmap at this time. or the method by which it intends to put the finserv jigsaw pieces together. It's therefore kind of a speculative wager.

On the other hand, one could counter that they will hold JFS and sell the RIL shares at a later date. If not, who knows? Non-RIL investors might make a wild dash to purchase JFS the day it lists, which might drive up the price. Global indices such as FTSE. Consequently, index funds will attempt to buy the stock as well once it begins trading." And you may have to pay more if you decide to purchase a stock after all of its future developments have been determined.