Reliance Industries | BUY

JM FINANCIAL

Net debt concerns overdone, expect it to peak in FY24

Dayanand Mittal
dayanand.mittal@jmfl.com | Tel: (91 96) 19388870
Shivam Gupta
Shivam.gupta@jmfl.com | Tel: (+91 22) 6630 3082

Following our Mar'23 note, reiterating our BUY call on RIL as the share price then was very close to our worst-case value, the key debates with investors have been on potential triggers that could actually drive a decisive rerating in the stock. The key arguments against a re-rating were that there are limited earnings-upgrade triggers for now, low visibility on event-based triggers in the near term (viz., listing of Digital and Retail businesses or strategic stake sale in Clean Energy or O2C businesses), and concerns over high capex and resultant rising net debt. The concerns on debt are overdone, in our view. We expect RIL's net debt to peak in FY24 and then decline gradually as capex will not only moderate (INR 1.2trln-1.4trln p.a. vs. INR 2.3trln in FY23) but, importantly, also be fully funded by a gradual increase in internal cash generation. RIL's guidance on keeping reported net debt to EBITDA below 1x (0.8x in Mar'23) also gives comfort. Be that as it may, we believe RIL could still drive a robust 14-15% EPS CAGR over the next 3-5 years with Jio's ARPU expected to rise at 10% CAGR over FY23-28, and continued strong momentum in Retail including scale-up of new initiatives (FMCG foray, inorganic growth, etc.).

- Key concerns dragging RIL stock's performance in last 6-9 months: Our interactions with investors suggest that the following are key reasons for the RIL stock's under-performance over the last 6-9 months: **a)** limited earnings-upgrade triggers for now due to the likely delay in telecom tariff hike to mid-2024 (post the national elections) and uncertain macros globally, which could cap O2C margins; **b)** low visibility on event-based triggers in the near term, viz., listing of Digital and Retail businesses or strategic stake sale in Clean Energy or O2C businesses; and **c)** concerns over the sharp rise in net debt due to aggressive capex in Digital, Retail and Clean energy businesses. By end-FY23, RIL's reported net debt had risen to INR 1,102bn, or 0.8x reported net debt to EBITDA (vs. net cash of INR 36bn in 2QFY22) while **adjusted net debt (including spectrum and other liabilities) had gone up to ~INR 2,732bn or 1.9x adjusted net-debt to EBITDA (from INR 795bn at end-FY22)**. This is due to the company's aggressive capex, with FY23 capex soaring to INR 2,299bn (or INR 1,418bn excluding INR 880bn towards 5G spectrum) vs. INR 1,454bn in FY22 (or INR 995bn excluding INR 436bn towards spectrum) – **Exhibit 1**.

- Concerns on net debt overdone; we expect RIL's capex to moderate from FY24 onwards: We expect **RIL's capex to moderate to INR 1,339bn in FY24 and ~INR 1,100bn-1,200bn p.a. from FY25 onwards (vs INR 2,299bn in FY24** including INR 880bn for 5G spectrum) as: **a)** ~INR 1,400bn out of the 5G capex guidance of INR 2,000bn has already been incurred in FY23 (INR 880bn for 5G spectrum and INR 500bn-550bn on 5G roll-out); hence, we expect Digital business capex to moderate to INR 423bn in FY24 and ~INR 250bn-300bn p.a. from FY25 onwards (vs. INR 1,427bn in FY23 and INR 827bn in FY22) – **Exhibit 1**; and **b)** sharp jump in Retail business capex to ~INR 505bn in FY23 was due to front-loading of store area addition with: **i)** 24mn sq.ft. added in FY23 (mostly due to majority of ~16mn sq.ft. of Future Retail outlets being refurbished and included in RIL Retail portfolio, in our view); we expect 8mn-10mn sq.ft. addition p.a., going forward; and **ii)** 16mn sq.ft of warehouse & fulfilment area added in FY23. High Retail capex was also aided by various acquisitions done during the last few quarters. Hence, we expect Retail business capex to moderate to ~INR 250bn p.a. from

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	2,900
Upside/(Downside)	16.1%
Previous Price Target	2,900
Change	0.0%

Key Data – RIL IN	
Current Market Price	INR2,498
Market cap (bn)	INR16,902.4/US$204.8
Free Float	43%
Shares in issue (mn)	6,765.0
Diluted share (mn)	6,766.0
3-mon avg daily val (mn)	INR14,550.8/US$176.3
52-week range	2,803/2,180
Sensex/Nifty	63,143/18,726
INR/US$	82.5

Price Performance

%	1M	6M	12M
Absolute	2.3	-5.7	-9.9
Relative*	0.1	-6.6	-21.7

* To the BSE Sensex

Financial Summary (INR mn)

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	6,999,620	8,794,680	9,310,140	9,757,762	11,058,017
Sales Growth (%)	49.9	25.6	5.9	4.8	13.3
EBITDA	1,104,600	1,429,080	1,581,885	1,816,468	2,092,186
EBITDA Margin (%)	15.8	16.2	17.0	18.6	18.9
Adjusted Net Profit	578,690	667,020	697,078	866,117	996,288
Diluted EPS (INR)	85.5	98.6	103.0	128.0	147.2
Diluted EPS Growth (%)	26.8	15.2	4.5	24.2	15.0
ROIC (%)	9.5	10.3	9.7	10.9	11.9
ROE (%)	7.8	8.3	8.2	9.4	10.0
P/E (x)	29.2	25.3	24.2	19.5	17.0
P/B (x)	2.2	2.1	1.9	1.8	1.6
EV/EBITDA (x)	17.4	13.4	12.2	10.7	9.2
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.6

Source: Company data, JM Financial. Note: Valuations as of 07/Jun/2023

S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and

FY24 vs. INR 505bn in FY23 – **Exhibit 2-6.**

- Net debt to peak in FY24; adjusted net debt to EBITDA to decline to 1.1x in FY26 vs. 1.9x in FY23: We expect RIL's net debt to peak in FY24 and decline gradually thereafter as capex is likely to be fully funded via a gradual rise in internal cash generation. We expect RIL's **adjusted net debt to peak by end-FY24 at ~INR 2,768bn or 1.8x adjusted net-debt to EBITDA** before moderating to ~INR 2,315bn, or 1.1x adjusted net debt to EBITDA, by end-FY26. Similarly, reported net debt is likely to peak at INR 1,249bn, or 0.8x reported net-debt to EBITDA, by end-FY24. We draw comfort from RIL's guidance that reported net debt to EBITDA is likely to remain below 1x (vs. 0.8x at end-FY23).

- ARPU on a structural uptrend; near-term delay in tariff hike to strengthen pricing power and subscriber market share for Jio: As highlighted earlier, notwithstanding a near-term delay in a tariff hike, we believe ARPU is on a structural uptrend given the consolidated industry structure and future investment needs. Our calculation suggests (**Exhibit 12**) that the industry needs to achieve an ARPU of INR 268-298 in the next 3-4 years for a pre-tax RoCE of 12-15% considering significant capex being incurred on 5G rollout. Further, near-term delay in tariff hike is likely to only strengthen the structural ARPU growth story as it is likely to expedite the transition to a duopoly market (by further deterring VIL's fund-raise plan). Our calculation suggests VIL (Vodafone idea) needs ARPU to jump sharply to INR 392 in FY27 (vs. ARPU of INR 135 in 4QFY23) to meet its payment obligations — **Exhibit 17**. Hence, we expect Jio's ARPU to increase at 10% CAGR over FY23-28; Jio may attain ~45% RMS target by FY26E (vs. ~42% in FY23) despite assuming that the industry continues to be a '3+1' player market. We value the Digital segment on DCF basis at an enterprise value (EV) of INR 996/share (or INR 6,326bn).

- Retail – on a strong expansion spree and driving omni-channel capabilities across segments: RIL continues to strengthen its retail foray via aggressive store expansion, leveraging its omni-channel capabilities by steadily expanding its offline footprint, as well as extending JioMart to Consumer Electronics and Fashion & Lifestyle. Further, the company's newer initiatives (foray into FMCG, acquisition of Metro) indicate that it is strongly focused on building a large portfolio of brands and strengthening the supply chain. This could become a sizeable value-creation opportunity in future. We value the Retail business at an EV of INR 992/share (or INR 6,301bn) based on 25x FY25 EBITDA; we also value JioMart at an EV of INR 127/share (or INR 809bn), factoring in the opportunity for digitisation of kirana stores.

- O2C business earnings linked to global macros but RIL relatively well placed: Despite the recent weakness, we expect refining margin to stabilise around normalised levels driven by likely pick-up in global oil demand in 2HCY23 due to full reopening of China, likely reduction in Chinese oil product export quota and expectation of a potential delay in new refining capacity addition (expected in 2HCY23). Recovery in petchem margin might be constrained in the near term due to volatile feedstock prices, supply overhang and muted demand growth. However, RIL is relatively better placed to mitigate macro uncertainty due to its integrated and complex facilities, locational advantage and strength in feedstock sourcing and product placement. Further, RIL's E&P business is likely to benefit from rise in KG D6 gas output to 30mmcmd in FY24 (from ~19mmcmd in 4QFY23). We value its Energy business at an EV of INR 1,047/share (or INR 6,651bn) based on 7.5x FY25 EBITDA for O2C business and 7.0x FY25 EBITDA for E&P business.

- Reiterate BUY given RIL's industry leading capabilities across businesses, which is likely to drive robust 14-15% EPS CAGR over the next 3-5 years: We tweak our FY24-25 EBITDA by a marginal ~1%; our TP remains unchanged at INR 2,900. We reiterate **BUY** given RIL's industry leading capabilities, which is likely to drive robust 14-15% EPS CAGR over the next 3-5 years — A Giant Digital Leap. We expect Jio's ARPU to rise at 10% CAGR over FY23-28 with ARPU being on a structural uptrend given the industry structure, future investment needs, and the need to avoid a duopoly market. Further, strong growth momentum continues in the company's Retail business as RIL is driving omni-channel capabilities across segments. Despite being contingent on global macros, RIL's O2C business earnings are also relatively well placed. At CMP, the stock is trading at FY25E P/E of 19.6x (3 year average: 24.3x) and FY25E EV/EBITDA of 10.7x (3 year average: 13.5x).

RIL's net debt likely to peak in FY24 and decline from FY25 onwards

By end-FY23, RIL's reported net debt had risen to INR 1,102bn or 0.8x reported net debt to EBITDA (vs. net cash of INR 36bn in 2QFY22) while adjusted net debt (including spectrum and other liabilities) had gone up to ~INR 2,732bn or 1.9x adjusted net debt to EBITDA (from INR 795bn at end-FY22). This is due to the company's aggressive capex, with FY23 capex surging to INR 2,299bn (or INR 1,418bn excluding INR 880bn towards 5G spectrum) vs. INR 1,454bn in FY22 (or INR 995bn excluding INR 436bn towards spectrum) – **Exhibit 1**. However, **we expect the capex run-rate to moderate to INR 1,339bn in FY24 and ~INR 1,100bn-1,200bn p.a. from FY25 onwards** (vs. INR 2,299bn in FY24 including INR 880bn for 5G spectrum) as:

a) ~INR 1,400bn out of the company's 5G capex guidance of INR 2,000bn has already been incurred in FY23 (INR 880bn towards 5G spectrum and balance INR 500bn-550bn on 5G network and equipment and fibre); hence, we expect **Digital business capex to moderate to INR 423bn in FY24 and ~INR 250bn-300bn p.a. from FY25 onwards** (vs INR 1,427bn in FY23 and INR 827bn in FY22) – **Exhibit 1**; and

Exhibit 1. RIL's segment wise break-up of consolidated capex and EBITDA

INR bn	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported Net debt	764	907	1,194	1,407	1,545	1,610	-22	348	1,102	1,249	1,096	958
Other liabilities	340	833	1,218	1,272	1,030	950	282	448	1,630	1,520	1,322	1,357
Adjusted Net debt (incl other liabilities)	**1,104**	**1,740**	**2,412**	**2,679**	**2,574**	**2,560**	**260**	**795**	**2,732**	**2,768**	**2,418**	**2,315**
EBITDA	415	507	525	712	877	927	879	1,191	1,429	1,582	1,816	2,092
Reported Net Debt to EBITDA (x)	1.8	1.8	2.3	2.0	1.8	1.7	-0.0	0.3	0.8	0.8	0.6	0.5
Adjusted Net Debt to EBITDA (x)	**2.7**	**3.4**	**4.6**	**3.8**	**2.9**	**2.8**	**0.3**	**0.7**	**1.9**	**1.8**	**1.3**	**1.1**
Capex break-up												
O2C	394	441	352	243	156	181	79	79	119	237	249	252
E&P	158	97	62	-13	59	31	39	55	83	83	66	53
Retail	4	3	8	48	50	93	103	299	505	235	257	245
Digital services	0	0	682	481	795	390	360	827	1,427	423	297	295
New Energy	0	0	-	-	-	-	-	-	-	250	250	250
Total	**1,002**	**1,130**	**1,147**	**793**	**1,235**	**805**	**797**	**1,454**	**2,299**	**1,337**	**1,228**	**1,203**

EBITDA to grow sharply from INR 1,429bn in FY23 to INR 2,092bn in FY26

Adjusted net-debt to EBITDA to moderate to 1.1x in FY26 vs 1.8x in FY23

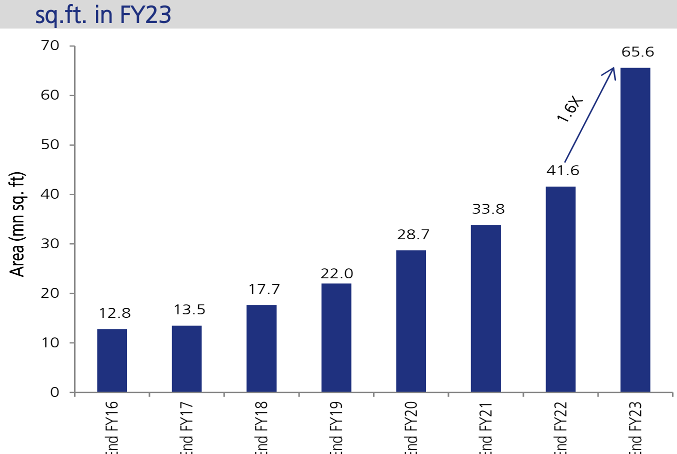
Retail capex to moderate to ~INR 250bn p.a. from FY24

Digital capex to moderate to INR 423bn in FY24 and INR 250-300bn p.a. from FY25

Source: IEA, EIA, JM Financial Note: FY22 and FY23 capex includes spectrum liability

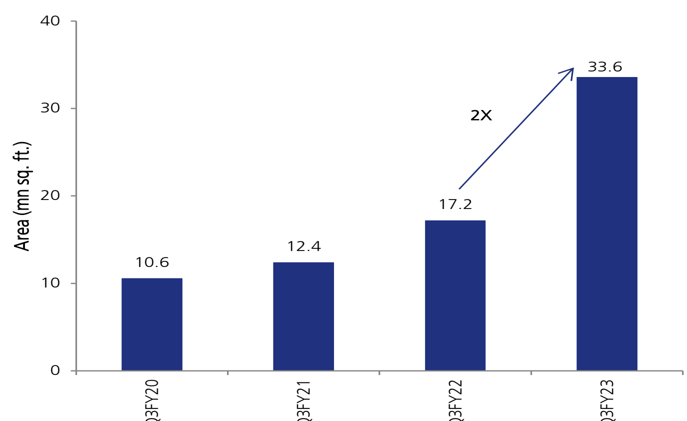
b) There is a sharp jump in capex in the Retail business to ~INR 505bn in FY23 due to front-loading of store area addition with: **i)** ~24mn sq.ft. added in FY23 (mostly as majority of ~16mn sq.ft. of Future Retail outlets being refurbished and included in RIL Retail portfolio, in our view); we expect 8mn-10mn sq.ft. addition p.a., going forward; and **ii)** ~16mn sq.ft. area added in warehouse & fulfilment in FY23. High capex was also aided by various acquisitions during the last few quarters. Hence, we expect **Retail business capex to moderate to ~INR 250bn p.a. from FY24 onwards** vs. INR 505bn in FY23 – **Exhibit 1-6**.

Exhibit 2. RIL Retail total store area expanded 1.6x or by ~24mn sq.ft. in FY23



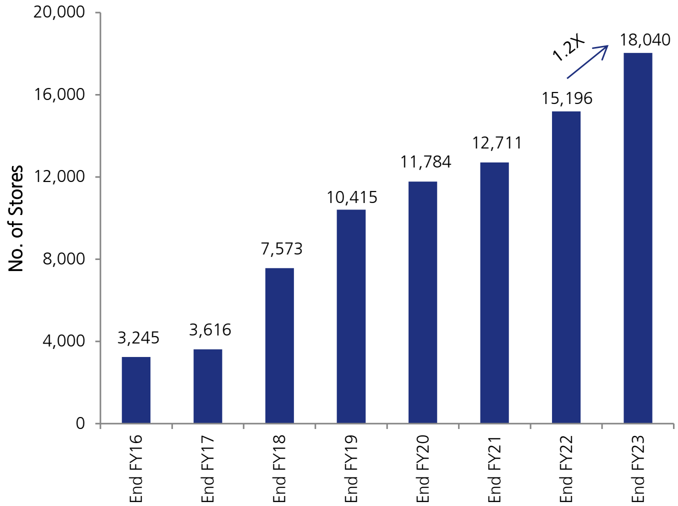
Source: Company, JM Financial.

Exhibit 3. RIL Retail warehouse and fulfilment area expanded 2x or by ~16mn sq.ft. in FY23



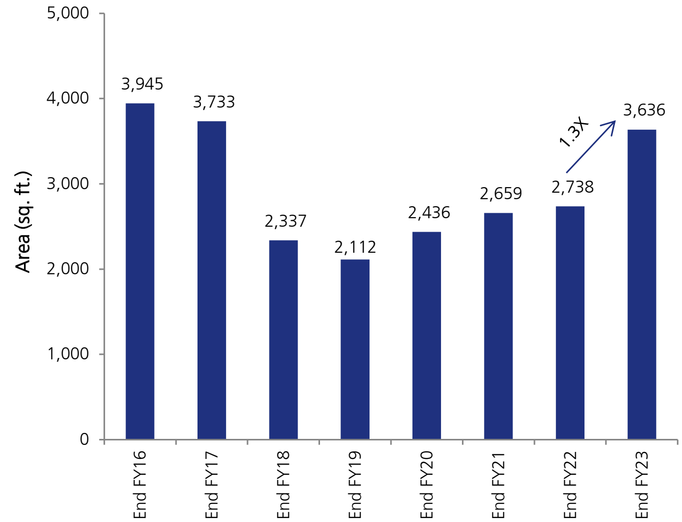
Source: Company, JM Financial.

Exhibit 4. RIL Retail total store count increased 1.2x or by ~3,000 stores in FY23



Source: Company, JM Financial.

Exhibit 5. RIL Retail witnessed sharp 1.3x jump in average store area in FY23



Source: Company, JM Financial.

Exhibit 6. RIL Retail's various acquisitions and partnerships in last few years

Month	Brand / Company	Segment	Amount (INR bn)	Details
Feb'19	Grab a Grub	Hyperlocal Logistics	1.5	Acquired 83% stake
Mar'19	C-Square	Softw are Solutions	0.8	Acquired 82% stake
Jul'19	Hamleys	Toys Retailing	6.2	Acquired 100% stake
Aug'19	Shopsense	Softw are Technology	2.9	Acquired 87.6% stake
Nov'19	Now Floats	Saas Platform	1.4	Acquired 85%
Mar'20	Kannan	Departmental Stores	1.5	Acquired 100% stake
Aug'20	Netmeds	Online Pharmacy	6.2	Acquired 60% stake in Netmed's parent company Vitalic
Nov'20	UrbanLadder	Online Furniture Retail	1.8	Acquired 96% stake
Feb'21	Zivame	Online Innerw ear Retail	NA	Acquired 15% stake
Jul'21	Justdial	Local Search Engine	35.0	Acquired 40.95% stake
Jul'21	Portico	Home fashion	NA	Acquired minority stake
Jul'21	Milkbasket	Online Grocery Delivery	3*	Acquired 96.49% stake
Oct'21	Ritu Kumar	Fashion	NA	Acquired 52% stake
Oct'21	Manish Malhotra	Fashion	NA	Acquired 40% stake
Oct'21	7 Eleven	Convenience Retail	NA	Acquired Master Franchise for Indian Market
1QFY23	Catw alk	Women Footw ear	NA	Acquired majority stake
1QFY23	GAP	Fashion	NA	Acquired Master Franchise for Indian Market
1QFY23	Tod's	Luxury Lifestyle	NA	Acquired Master Franchise for Indian Market
1QFY23	Sunglass Hut	Premium Eyew ear	NA	Acquired India Franchise rights
1QFY23	Plastic Legno SPA	Toy Manufacturing	NA	Entered into Joint Venture for India Business
1QFY23	Pret A Manger	Coffee Chain	NA	Acquired Master Franchise for Indian Market
1QFY23	AJSK	Fashion	NA	Acquired 51% stake
2QFY23	Campa Cola	Beverages	0.2	Acquired 100% stake
2QFY23	Insight Cosmetics	Cosmetics	0.8-1.1*	Acquired controlling stake
3QFY23	Sosyo	Beverages	NA	Acquired 50% stake
3QFY23	Lotus Chocolate	Chocolates	0.7	Acquired 51% stake
3QFY23	V Retail	Footw ear & Apparel	NA	
4QFY23	EL&N Café	Boutique Café	NA	Entered into exclusive partnership
4QFY23	Circle E Retail	Toy Manufacturing	NA	Entered into Joint Venture for India Business
1QFY24	Metro Cash and Carry India	Wholesale Operations	28.5	100% stake sale deal signed in Dec'22, completed in May'23

Source: Company. * The amount is as per the media reports as company has not disclosed details.

Hence, we expect RIL's net debt to peak in FY24 and decline gradually thereafter as capex is likely to get fully funded via a gradual rise in internal cash generation. We expect **RIL's adjusted net debt to peak at ~INR 2,768bn, or 1.8x adjusted net debt to EBITDA, by end-FY24 before moderating to ~INR 2,315bn, or 1.1x adjusted net debt to EBITDA, by end-FY26**. Similarly, reported net debt is likely to peak at INR 1,249bn, or 0.8x reported net debt to EBITDA, by end-FY24. We draw comfort from RIL's guidance that reported net debt to EBITDA is likely to remain below 1x (vs. 0.8x by end-FY23).

Exhibit 7. RIL's consolidated debt break-up details

INR bn	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported Gross debt	**674**	**683**	**724**	**1,387**	**1,609**	**1,807**	**1,966**	**2,188**	**2,875**	**3,363**	**2,518**	**2,663**	**3,147**	**3,283**	**3,249**	**3,311**
Less: Cash and cash equivalent	424	703	830	900	845	900	772	781	1,330	1,753	2,540	2,315	2,045	2,034	2,153	2,354
Reported Net debt	**250**	**-20**	**-105**	**488**	**764**	**907**	**1,194**	**1,407**	**1,545**	**1,610**	**-22**	**348**	**1,102**	**1,249**	**1,096**	**958**
Other liabilities																
Other non-current financial liabilities*				8	15	22	90	85	100	113	151	126	86	86	86	86
Deferred payment liabilities (Spectrum)				0	74	133	201	202	188	188	188	372	1,128	1,128	1,128	1,128
Other current financial liabilities**	187	137	237	121	302	741	916	880	580	500	436	445	685	582	408	387
Other current liabilities***					34	100	209	432	529	476	330	216	429	386	363	352
Less: Other current assets ***	2	2	18	33	-85	-163	-199	-328	-368	-328	-824	-712	-699	-664	-664	-597
Other liabilities	**189**	**140**	**254**	**162**	**340**	**833**	**1,218**	**1,272**	**1,030**	**950**	**282**	**448**	**1,630**	**1,520**	**1,322**	**1,357**
Adjusted Net debt (incl other liabilities)	**439**	**120**	**149**	**649**	**1,104**	**1,740**	**2,412**	**2,679**	**2,574**	**2,560**	**260**	**795**	**2,732**	**2,768**	**2,418**	**2,315**
Other details																
Equity	1,541	1,694	1,821	1,987	2,087	2,316	2,637	2,935	3,871	4,492	7,002	7,795	8,212	8,826	9,547	10,390
EBITDA	395	366	351	379	415	507	525	712	877	927	879	1,191	1,429	1,582	1,816	2,092
PAT	193	197	209	225	236	299	299	361	398	394	491	607	667	697	866	996
CFO (after w orking capital changes)	333	245	369	433	344	381	496	715	423	949	262	1,107	1,150	1,600	1,477	1,715
FCF	-5	81	62	-168	-290	-88	-286	-25	-513	184	-797	105	-260	213	249	512
Capex	250	196	323	691	1,002	1,130	1,147	793	1,235	805	797	1,454	2,299	1,337	1,228	1,203
Reported Net Debt to Equity (x)	0.2	-0.0	-0.1	0.2	0.4	0.4	0.5	0.5	0.4	0.4	-0.0	0.0	0.1	0.1	0.1	0.1
Adjusted Net Debt to Equity (x)	0.3	0.1	0.1	0.3	0.5	0.8	0.9	0.9	0.7	0.6	0.0	0.1	0.3	0.3	0.3	0.2
Reported Net Debt to EBITDA (x)	**0.6**	**-0.1**	**-0.3**	**1.3**	**1.8**	**1.8**	**2.3**	**2.0**	**1.8**	**1.7**	**-0.0**	**0.3**	**0.8**	**0.8**	**0.6**	**0.5**
Adjusted Net Debt to EBITDA (x)	**1.1**	**0.3**	**0.4**	**1.7**	**2.7**	**3.4**	**4.6**	**3.8**	**2.9**	**2.8**	**0.3**	**0.7**	**1.9**	**1.8**	**1.3**	**1.1**
RIL share price end FY (INR)	525	375	386	465	413	523	660	883	1,363	1,103	2,003	2,635	2,331			
RIL share price return in each FY (%)	-2%	-28%	3%	20%	-11%	27%	26%	34%	54%	-19%	82%	32%	-12%			
NIFTY 50 Index price end FY (INR)	5,834	5,296	5,683	6,704	8,491	7,738	9,174	10,114	11,624	8,598	14,691	17,465	17,360			
NIFTY 50 Index price return in each FY (%)	11%	-9%	7%	18%	27%	-9%	19%	10%	15%	-26%	71%	19%	-1%			

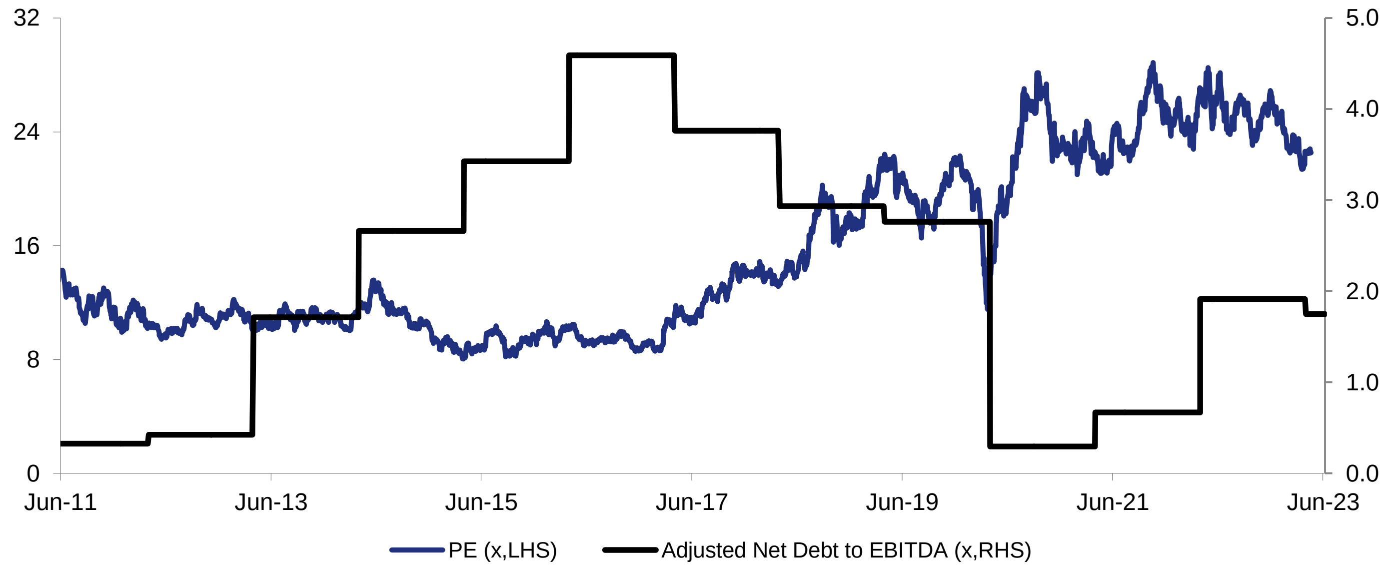
Source: IEA, EIA, JM Financial `*Interest accrued but not due on deferred payment liabilities, deposits and creditors for capex; **Creditor for capex, security deposits; ***Statutory dues; ****Balance with tax authorities, prepaid expense, deposits, advance to vendors and claims receivable

Exhibit 8. RIL's segment wise break-up of consolidated capex and EBITDA

INR Bn	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Capex break-up																
O2C	19	49	119	263	394	441	352	243	156	181	79	79	119	237	249	252
E&P	106	159	137	180	158	97	62	-13	59	31	39	55	83	83	66	53
Retail	-	-	-	-11	4	3	8	48	50	93	103	299	505	235	257	245
Digital services	-	-					682	481	795	390	360	827	1,427	423	297	295
New Energy														250	250	250
Financial Services									0	0	0	0	0	0	0	0
Others	136	31	58	248	393	508	29	82	158	107	183	136	141	84	84	84
Unallocable	8	7	8	12	54	81	15	-49	17	3	33	57	24	24	24	24
Total	**250**	**196**	**323**	**691**	**1,002**	**1,130**	**1,147**	**793**	**1,235**	**805**	**797**	**1,454**	**2,299**	**1,337**	**1,228**	**1,203**
EBITDA break-up																
O2C	249	254	265	285	302	405	451	549	639	538	382	527	621	606	682	702
E&P	141	107	77	67	76	69	13	17	16	4	3	55	136	220	220	184
Retail	-	-	0	4	8	9	12	25	62	97	98	124	180	236	296	399
Digital services	-	-	0	0	0	0	-0	67	153	233	340	403	503	530	628	816
Financial Services									2	8	13	7	5	6	6	7
Others	-1	3	8	10	11	13	17	26	28	40	50	71	0	0	0	0
Unallocable	7	1	2	14	18	12	34	28	-24	7	-7	4	-15	-15	-15	-15
Total	**395**	**366**	**351**	**379**	**415**	**507**	**525**	**712**	**877**	**927**	**879**	**1,191**	**1,429**	**1,582**	**1,816**	**2,092**

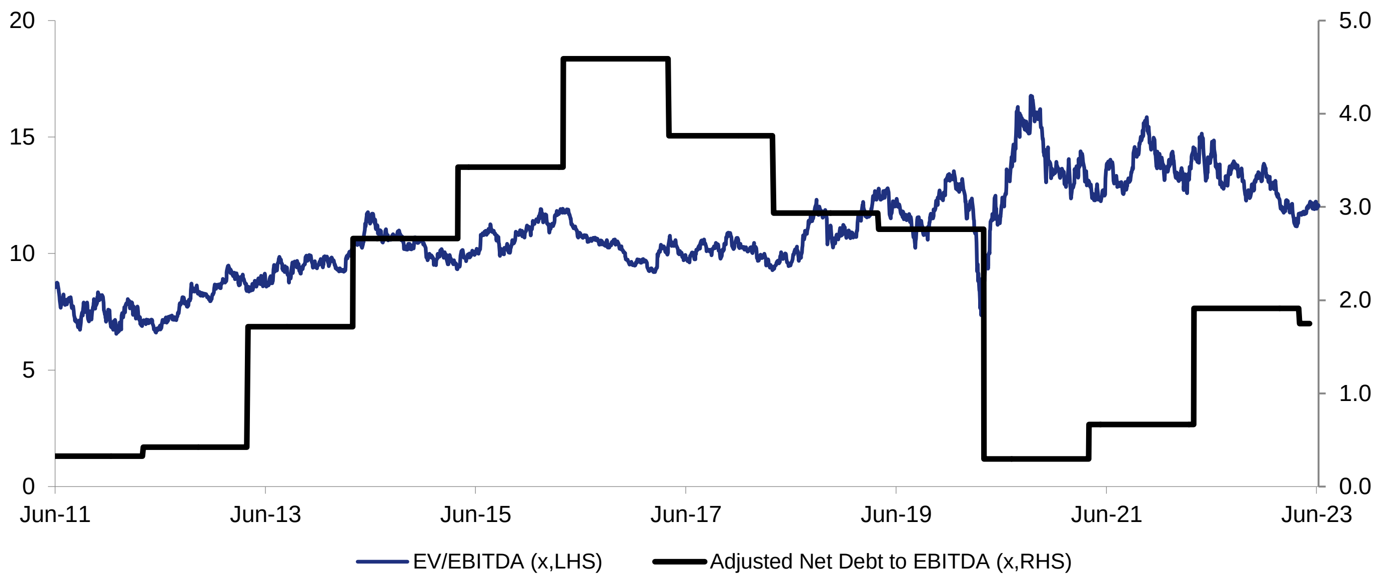
Source: IEA, EIA, JM Financial Note: FY22 and FY23 capex includes spectrum liability

Exhibit 9. RIL 1-year forward PE band — rerating since 2017 led by peaking of net debt and strong earnings growth visibility



Source: JM Financial, Bloomberg

Exhibit 10. RIL 1-year forward EV-EBITDA band — rerating since 2017 led by peaking of net debt and strong earnings growth visibility

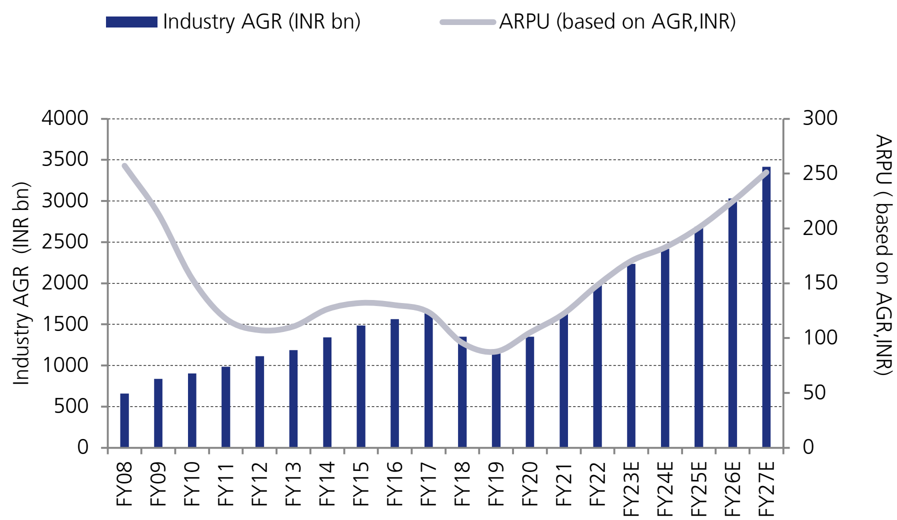


Source: JM Financial, Bloomberg

ARPU on a structural uptrend; near-term delay in tariff hike to strengthen Jio's pricing power and subscriber market share

With the consolidation of India's telecom industry largely complete, we expect the wireless industry's revenue to grow to +INR 3,400bn by FY27E from ~INR 2,250bn in FY23 (after having already recovered from a low of ~INR 1,200bn in FY19) – (**Exhibit 11**) – due to the continued structural uptrend in industry ARPU driven by future investment needs. Our calculation suggests (**Exhibit 12**) that the industry needs to achieve an **ARPU of INR 268-298 in the next 3-4 years for a pre-tax RoCE of 12-15%** considering the significant capex being incurred on 5G rollout (taking the total investments to ~INR 10,582bn till end-FY27E; actual investment of ~INR 8,095bn until FY23).

Exhibit 11. Telecom industry revenue to rise to +INR 3,400bn by FY27E, after having recovered to ~INR 2,250bn in FY23 (from low of ~INR 1,200bn in FY19)



Source: TRAI, JM Financial.

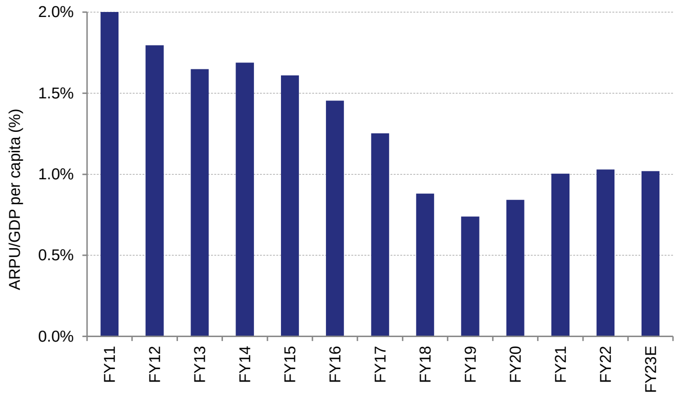
Exhibit 12. Estimated ARPU of INR 268-298 for a pre-tax RoCE of 12% and 15% based on future investment needs of private telcos

	For 12% ROCE	For 15% ROCE	Comments
Required return	12%	15%	
Total invested capital (INR bn)	10,582	10,582	Book value of net invested capital at the end of FY23 + estimated capex over FY24-27E
Required EBIT (INR bn)	1,270	1,587	
Actual non-statutory opex (INR bn)*	1,628	1,628	4QFY23 annualized opex ex-License Fees and Spectrum Usage Charges [SUC]
License Fee + SUC (%)	10%	10%	License Fee taken at 8% and SUC at ~2%
Required revenue (INR bn)	3,220	3,572	
Number of subscribers (mn)	1,000	1,000	
ARPU (INR)	268	298	

Source: Company, JM Financial.* Pre-IND AS numbers used

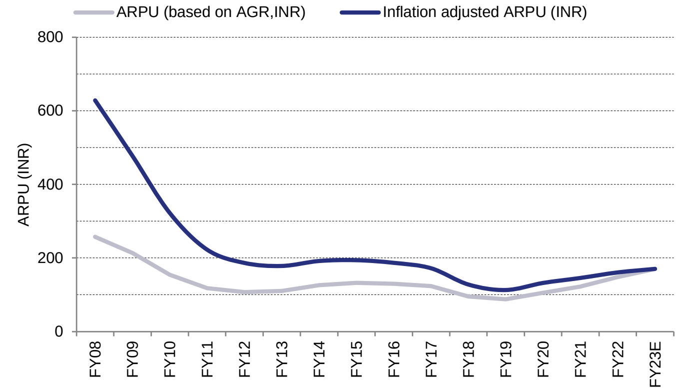
We expect the structural uptrend in ARPU to come via a mix of: **a) tariff hikes; and b) continued MBB upgrades and rise in data usage**. Players have hiked tariffs many times in the last 3-4 years: **a)** 30-40% hike in Dec'19 by all telcos across plans; **b)** hike in entry level prepaid plan from INR 49 to INR 79 in Jul'21; and **c)** ~20% hike in Nov-Dec'21 by all telcos across plans. Despite these hikes and higher data usage, **ARPU in India is one of the world's lowest at USD 1.9/month vs. the global average of USD 8-10/month** (and USD 6.8/month in China and +USD 20/month in developed countries). **India's ARPU to GDP per capita is still low at ~1.0% in FY23** vs. +1.5% before FY15 (i.e., before Jio's entry), though it has recovered from a low of ~0.7% in FY19. This is because both nominal- and inflation-adjusted ARPUs are still lower that historical ARPUs despite the recent increase (**Exhibit 13-16**).

Exhibit 13. India's ARPU to GDP per capita is still low at ~1% vs. +1.5% before Jio's entry despite recent increase



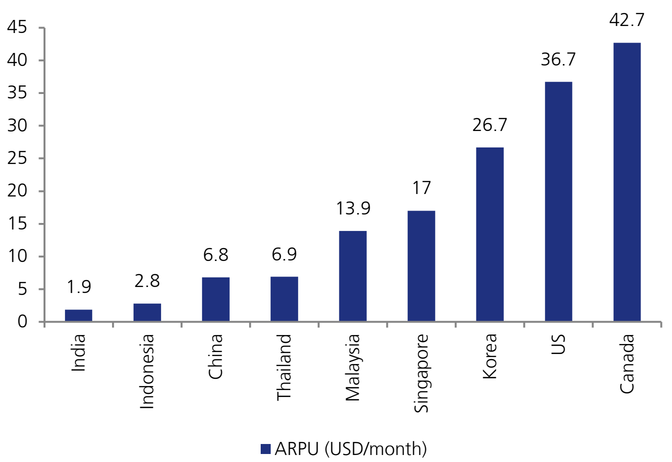
Source: TRAI, JM Financial.

Exhibit 14. Both nominal- and inflation-adjusted ARPUs still lower than historical ARPUs despite recent increase



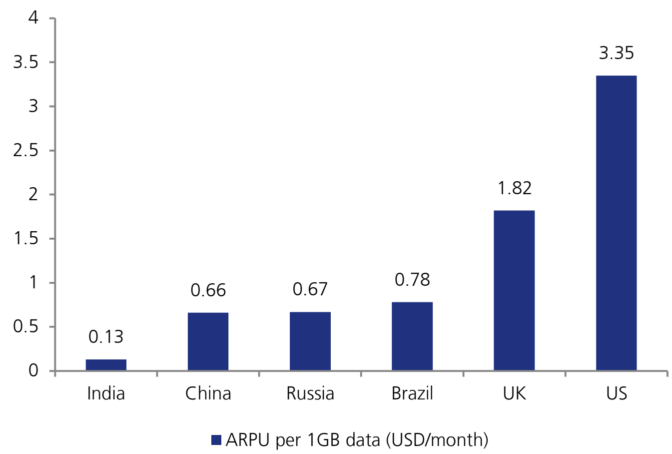
Source: TRAI, JM Financial.

Exhibit 15. At USD 1.9/month, India's ARPU one of the lowest in the world



Source: Company, JM Financial.

Exhibit 16. Data rates in India one of the lowest in the world at USD 0.13/GB



Source: Company, JM Financial.

Recently, the management of Vodafone Idea Ltd (VIL) had said that it needs to make an annual payout of INR 413bn from Mar'26 (and INR 83.8bn in FY23) post the end of the moratorium; our calculation suggests **VIL needs ARPU to jump sharply to INR 163 in FY24 and further to INR 392 in FY27 (vs. ARPU of INR 135 in 4QFY23)** to meet its payment obligations. Hence, a near-term delay in tariff hike is likely to further strengthen the structural ARPU growth story as it could: **a)** expedite the transition to a duopoly market (by further deterring VIL's fund-raise plan) and, hence, significantly boost subscriber market share for Jio (and Bharti), and **b)** strengthen pricing power of Jio (and Bharti) to enable it achieve its long-term ARPU target.

Exhibit 17. VIL need an ARPU of ~INR 163 in FY24 and INR 392 in FY27 to meet payment obligations (vs. ARPU of INR 135 in 4QFY23)

INR bn, unless specified	FY24	FY27
Debt repayments	84	440
Capex	45	60
Total Cash Outflow	**129**	**500**
4QFY23 annualised pre-Ind AS EBITDA	83	83
Shortfall in cash to be bridged via higher ARPU	**46**	**417**
Incremental EBITDA margin (assumed)	60%	60%
Required revenues	77	695
Subscriber base at end 4QFY23 (mn)	226	226
4QFY23 APRU (INR)	135	135
Hike in APRU required (INR)	28	257
Hike in APRU required (%)	21%	190%
Required APRU (INR)	**163**	**392**

Source: Company, JM Financial.

Retail – on a strong expansion spree and driving omni-channel capabilities across segments

RIL continues to strengthen its retail foray via aggressive store expansion, leveraging its omni-channel capabilities by steadily expanding its offline footprint, as well as extending JioMart to Consumer Electronics and Fashion & Lifestyle. Further, the company's newer initiatives (foray into FMCG, acquisition of Metro) suggest that it is focusing strongly on building a wide portfolio of brands and strengthening the supply chain. This could become a sizeable value-creation opportunity in future.

At RIL's 45th AGM, the company announced a foray into the FMCG business with the objective of providing high-quality, affordable products that cater to the daily needs of every Indian. In line with that announcement, RIL, through Reliance Retail's FMCG arm Reliance Consumer Products Limited, started its FMCG journey in Gujarat with the launch of its indigenous consumer packaged goods brand 'Independence'. Gujarat will also be its go-to market for initial execution before a pan-India rollout. The brand offers a wide range of products under several categories including staples, processed foods, and other daily essentials.

Further, as part of its strategy to build its portfolio, the company entered into two other large FMCG segments - Personal care & Home care - with the launch of multiple brands. It is using both the organic and the inorganic routes to develop its portfolio in the consumption space. Recent brand launches (Independence, Glimmer, Puric, Enzo, Glimmer, Get real) & acquisitions (Campa Cola, Sosyo Beverages, Lotus Chocolates, Metro Cash & Carry) clearly suggest the company is focused on: **a)** creating a portfolio of 'affordable brands' in the FMCG space; and **b)** strengthening the overall supply chain. Further, the company's product pricing has been competitive vis-à-vis incumbents in all the categories that it has forayed into. We reckon that it takes decades to build a successful consumer brand; however, given Reliance's deep pockets, ability to disrupt, and existing strengths in terms of an omni-channel supply chain, its aggression in the space could continue in future.

Exhibit 18. RIL forayed into FMCG business through both organic and inorganic routes

	Brand	Category
Organic		
	Independence	Staples, Processed Foods
	Puric	Soaps, Handw ash, Disinfectant,show er gel
	Glimmer	beauty & Cosmetics
	Enzo	Laundry
	Get Real	Soaps, Facew ash, Show er gel, Pow der
	Dozo	Dishw ash
	HomeGaurd	Floor cleaners
Inorganic		
	Campa Cola	Beverages
	Sosyo	Beverages
	Lotus	Chocolates

Source: Company, JM Financial.

Exhibit 19. RIL forayed into food segment through its own brand 'Independence'

Source: Company, JM Financial.

Exhibit 20. RIL forayed into HPC

Source: Company, JM Financial.

O2C business earnings contingent on global macros but RIL relatively well placed

RIL's petchem margin had improved in 4QFY23 from a low base due to the sharp decline in US ethane prices (feedstock); however, the RIL management expects petchem margin recovery to be constrained in the near term due to volatile feedstock prices, supply overhang and muted demand growth: **a)** global cracker utilisation declined 430bps QoQ to 80.2% in 4QFY23 due to 2.7mmtpa capacity addition, mainly in China; and **b)** muted global demand (particularly in key markets of US, EU and China).

On the other hand, refining margin had been strong since 4QFY22 driven by supply side concerns and tightness in diesel demand-supply balance. However, it has declined in the last 1-2 months due to rising demand concerns (in both US and China), rise in China's refined product exports and limited impact on Russia's diesel supply post EU ban. We expect S'pore refining margin to stabilise around the normalised level of ~USD 6/bbl driven by some positive momentum on oil demand in 2HCY23 due to full reopening of China; likely fall in Chinese oil product exports on account of reduction in the export quota, and expectation of potential delay in new refining capacity addition (expected in 2HCY23).

Moreover, RIL's refining and petchem business is relatively better placed to mitigate macro uncertainty due to its integrated and complex facility, locational advantage and strength in feedstock sourcing and product placement. Further, RIL's E&P business is likely to continue to benefit from relatively high global gas prices and rise in KG D6 gas production to 30mmcmd in FY24 (from ~19mmcmd in 4QFY23). We value its Energy business at an EV of INR 1,047/share (or INR 6,651bn) based on 7.5x FY25 EBITDA for O2C business and 7.0x FY25 EBITDA for E&P business.

Exhibit 21. Petchem margin trends (USD/tn) — significantly below historical average due to capacity addition amidst muted demand growth

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23				5 year average
								1QFY23	2QFY23	3QFY23	4QFY23	
Polymer Delta Scenario												
PP-Propylene	307	253	300	249	166	637	530	421	357	292	367	376
HDPE-Naphtha	769	721	668	576	390	512	426	415	365	327	340	514
PVC-Naphtha-EDC	441	531	583	465	462	584	573	576	429	409	482	533
Polyester Delta Scenario	556	569	650	638	603	513	602	593	600	488	516	601

Source: Company

Exhibit 22. Global Petchem and Refining operating rate

	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23				5 year average
								1QFY23	2QFY23	3QFY23	4QFY23	
Polymer Delta Scenario												
PP-Propylene	307	253	300	249	166	637	530	421	357	292	367	376
HDPE-Naphtha	769	721	668	576	390	512	426	415	365	327	340	514
PVC-Naphtha-EDC	441	531	583	465	462	584	573	576	429	409	482	533
Polyester Delta Scenario	556	569	650	638	603	513	602	593	600	488	516	601

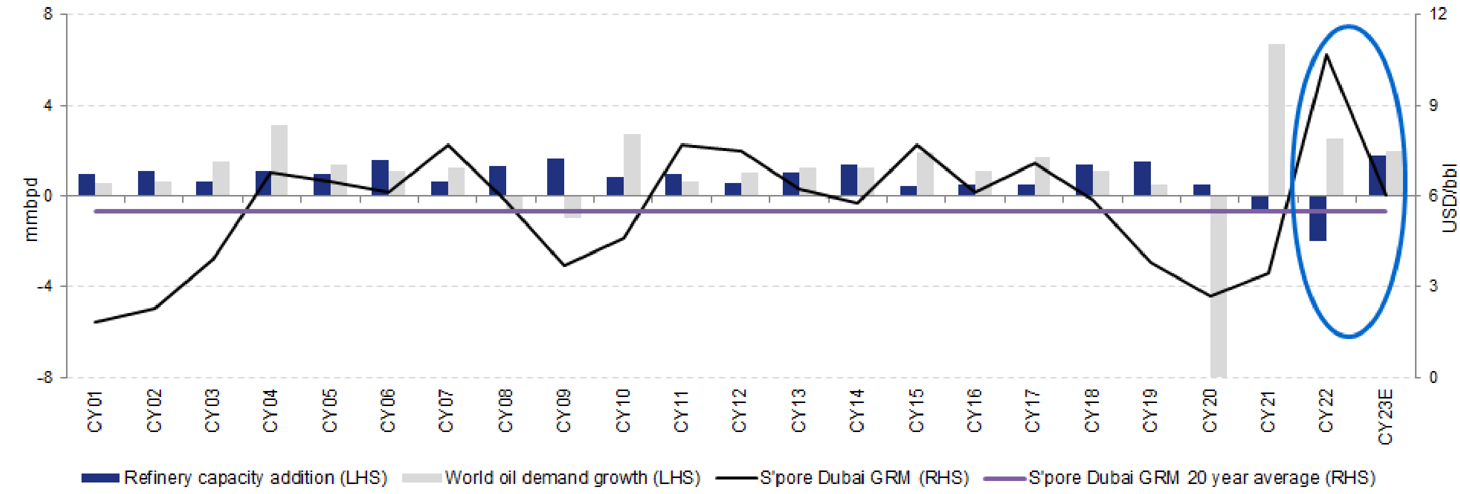
Source: Company

Exhibit 23. IEA expects global oil demand recovery to be strong at ~2.2mmbpd in CY23 led by rebound in Chinese oil demand

mmbpd	CY15	CY16	CY17	CY18	CY19	CY20	CY21	CY22	CY23E
IEA									
Global demand (mmbpd)	95.3	96.5	98.2	99.3	99.7	90.8	97.5	99.8	102.0
Demand growth (mmbpd, YoY)	1.9	1.1	1.7	1.1	0.4	-8.9	6.7	2.3	2.2
EIA									
Global demand (mmbpd)	95.9	97.5	99.4	100.1	100.9	91.8	97.2	99.4	101.0
Demand growth (mmbpd, YoY)	1.8	1.6	1.9	0.7	0.8	-9.0	5.3	2.2	1.6

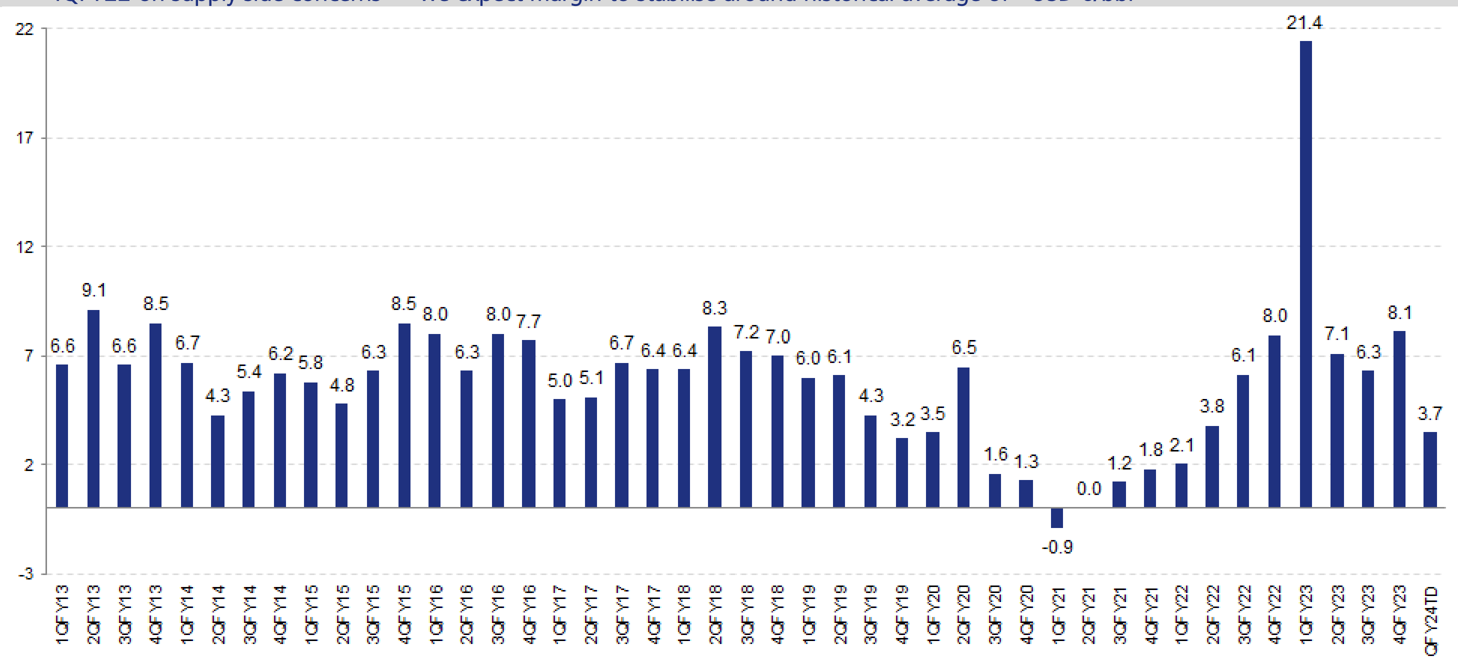
Source: IEA, EIA, JM Financial

Exhibit 24. Refining margin likely to remain robust as refining capacity addition could lag global oil demand growth



Source: BP statistical review, IEA, JM Financial

Exhibit 25. S'pore GRM trend (USD/bbl) has moderated in 1QFY24TD on demand concerns after witnessing above-normal margin since 4QFY22 on supply side concerns — we expect margin to stabilise around historical average of ~USD 6/bbl



Source: BP statistical review, IEA, JM Financial

Key Assumptions and Estimates

Exhibit 26. Key assumptions

	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Brent crude price (USD/bbl)	44.7	80.0	95.4	75.0	65.0	65.0	65.0	65.0
Exchange rate (INR/USD)	71.9	74.5	80.4	82.0	83.6	85.3	87.0	88.8
Refining								
EBITDA (INR Bn)	139	266	383	337	364	371	378	386
Crude throughput	65.7	64.8	63.5	68.2	69.6	69.6	69.6	69.6
Margins (USD/bbl)								
S'pore Dubai GRM	0.5	5.0	10.7	6.0	6.0	6.0	6.0	6.0
RIL's total GRM premium	5.5	4.5	2.0	4.5	4.5	4.5	4.5	4.5
a) RIL normal GRM premium	5.5	4.0	1.3	3.5	3.5	3.5	3.5	3.5
b) Petcoke gasification addition to GRM	0.0	0.5	0.8	1.0	1.0	1.0	1.0	1.0
RIL's total GRM	6.0	9.5	12.7	10.5	10.5	10.5	10.5	10.5
Refining cash opex	2.0	2.0	2.5	2.3	2.0	2.0	2.0	2.0
Refining EBITDA	4.0	7.5	10.2	8.2	8.5	8.5	8.5	8.5
Petrochemicals								
EBITDA (INR Bn)	243	261	238	269	318	331	344	358
EBITDA/ton (USD/ton)	209	203	168	185	213	215	217	219
Sales volumes (mmtpa)								
Polymers	5.9	6.3	6.3	6.3	6.4	6.4	6.5	6.6
Polyesters	2.8	3.0	3.1	3.1	3.1	3.2	3.2	3.2
Fiber intermediaries	6.7	7.2	7.4	7.5	7.5	7.6	7.7	7.8
Total	16.2	17.3	17.6	17.7	17.9	18.0	18.2	18.4
E&P								
EBITDA (INR Bn)	3	55	136	220	220	184	189	194
Gas production (mmscmd)	3	18	20	30	32	32	32	32
Gas realisation (USD/mmbtu)	3.6	6.3	11.0	10.7	10.2	8.2	8.2	8.2
Digital								
EBITDA (INR Bn)	340	403	503	530	628	816	979	1,167
EBITDA margin (%)	44.4%	47.9%	49.8%	50.5%	50.9%	55.1%	55.5%	55.9%
Wireless segment								
Subscribers (mn - EoP)	423	413	439	448	460	471	481	491
ARPU (INR)	144	153	177	187	206	232	260	293
Retail								
Revenue (INR Bn)	1,576	1,997	2,604	3,214	3,856	4,809	5,871	6,928
EBITDA (INR Bn)	98	124	180	236	296	399	521	643
EBITDA margin (%)	6.2%	6.2%	6.9%	7.3%	7.7%	8.3%	8.9%	9.3%
EBITDA break-up (INR Bn)								
O2C	382	527	621	606	682	702	722	744
E&P	3	55	136	220	220	184	189	194
Digital	340	403	503	530	628	816	979	1,167
Retail	98	124	180	236	296	399	521	643
Financial Services & Others	56	83	-10	-10	-9	-8	-8	-7
Total	**879**	**1,191**	**1,429**	**1,582**	**1,816**	**2,092**	**2,403**	**2,739**
Energy business	384	582	757	826	901	886	911	937
Non-energy business (incl others)	495	609	672	756	915	1,207	1,492	1,802
EBITDA proportion								
O2C	43%	44%	43%	38%	38%	34%	30%	27%
E&P	0%	5%	10%	14%	12%	9%	8%	7%
Digital	39%	34%	35%	33%	35%	39%	41%	43%
Retail	11%	10%	13%	15%	16%	19%	22%	23%
Financial Services & Others	6%	7%	-1%	-1%	-1%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Energy business	44%	49%	53%	52%	50%	42%	38%	34%
Non-energy business (incl others)	56%	51%	47%	48%	50%	58%	62%	66%

Source: Company, JM Financial

Valuations

Our base-case **target price for RIL of INR 2,900/share is computed on a sum-of-the-parts (SOTP)** valuation method:

a) Petchem segment at an EV of INR 376/share based on 7.5x FY25 EV/EBITDA;

b) Refining segment at an EV of INR 429/share based on 7.5x FY25 EV/EBITDA;

c) E&P segment at an EV of INR 242/share based on 7.0x FY25 EV/EBITDA;

d) Digital segment (RIL's 67.05% stake in JPL) at an EV of INR 996/share comprising: **i)** Telecom business at INR 881/share based on DCF valuation; implied valuation of ~11.8x FY25 EV/EBITDA; and **ii)** Digital opportunities at INR 115/share based on potential monetisation of Video OTT apps, audio OTT and Consumer IoT business.

e) Retail business (RIL's share) at an EV of INR 992/share based on 25x FY25 EV/EBITDA. Further, we value **Jio Mart at an EV of INR 127/share**, factoring in the opportunity of digitisation of kirana stores.

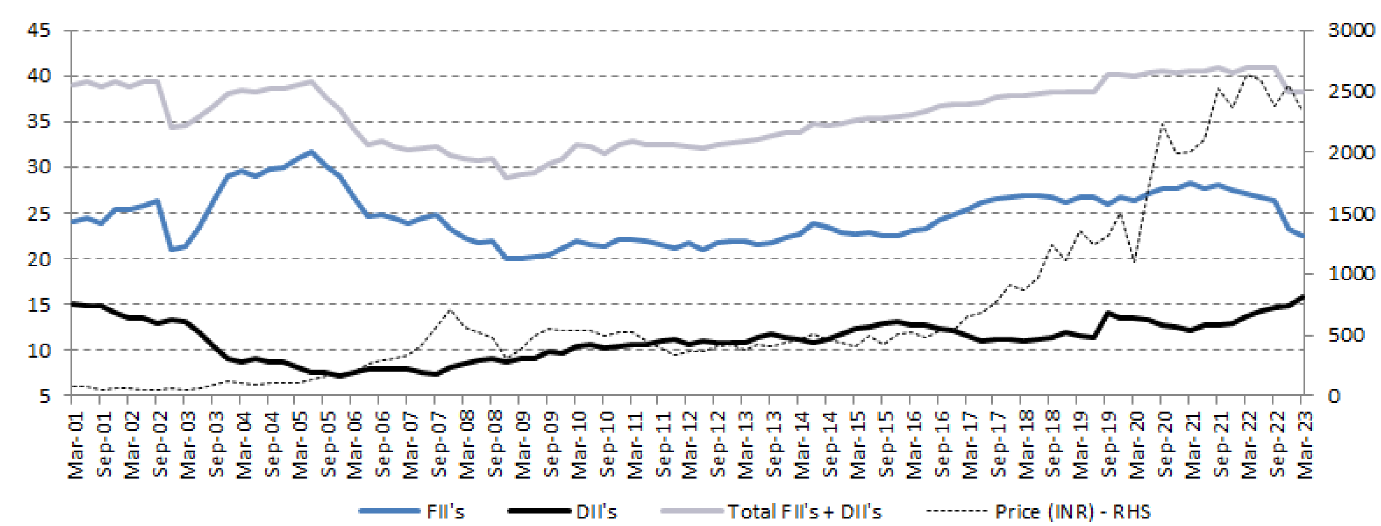
Though continued high capex is a key near-term concern, **we reiterate our high conviction on BUY given RIL's industry leading capabilities, which is likely to drive robust 14-15% EPS CAGR over the next 3-5 years.** At CMP, the stock is trading at FY25E P/E of 19.6x (3-year average: 24.3x) and FY25E EV/EBITDA of 10.4x (3-year average: 13.5x).

Exhibit 27. RIL's sum-of-the-parts valuation - our target price for RIL is INR 2,900/share

Business segment	Valuation methodology	EBITDA (INR Bn)	Valuation multiple	Valuation (INR bn)	Valuation (USD bn)	Valuation (INR/share)	Comments
Energy business				**6,651**	**81**	**1,047**	
Petchem	EV/ EBITDA	318	7.5	2,386	29	376	Valued at 7.5x EV/EBITDA
Refining	EV/ EBITDA	364	7.5	2,727	33	429	Valued at 7.5x EV/EBITDA
E&P	EV/ EBITDA	220	7.0	1,538	19	242	Valued at 7x EV/EBITDA
Digital business (for RIL's share)				**6,326**	**77**	**996**	
a) Telecom business	DCF			5,594	68	881	Based on DCF valuation; implied valuation of 12.9x EV/EBITDA
b) Digital opportunities				733	9	115	Based on potential monetization of Video OTT apps, JioSaavn and Consumer IoT business
Retail business (for RIL's share)	EV/ EBITDA			**7,110**	**87**	**1,119**	
a) Retail business				6,301	77	992	Valued at 25x EV/EBITDA, based on peers valuation range
b) JioMart New commerce business				809	10	127	Valuing kirana digitisation opportunity assuming Jio Mart gets ~10% market share in General Trade ecommerce market by FY30
New Energy business				**750**	**9**	**118**	At 1x announced capex of INR 750bn
Total Enterprise Value				**20,837**	**254**	**3,280**	
Less: Net Debt				2,418	29	381	
Total Equity Value				**18,419**	**225**	**2,900**	

Source: JM Financial Note: We have used 6,349mn shares for our target price computation (including 423mn Rights shares but excluding 413mn Treasury shares)

Exhibit 28. RIL's FII and DII shareholding trend: FII shareholding at end-Mar'23 had declined by 390bps since Sep'22 and by 560bps since Mar'21



Source: Capitaline

Risks along with EPS and valuation sensitivity

a) Refining margin sensitivity: Every USD 1/bbl increase/decrease in GRM has a positive/negative impact of 2% on our valuation, 4% on our FY24E EPS, and 3% on our FY24E EBITDA. An unexpected decline in refining margin could have a negative impact on RIL's earnings and valuation.

b) Petchem margin sensitivity: Every USD 20/tn increase/decrease in EBITDA margin has a positive/negative impact of 2% on our valuation, 3% on our FY24E EPS, and 2% on our FY24E EBITDA. An unexpected slide in petchem EBITDA margin could hurt RIL's earnings and valuation.

c) Retail margin sensitivity: Every 50bps increase/decrease in retail EBITDA margin has a positive/negative impact of 1% on our valuation, FY24E EPS and FY24E EBITDA. Any downside to retail profitability could have a negative impact on RIL's earnings and valuation.

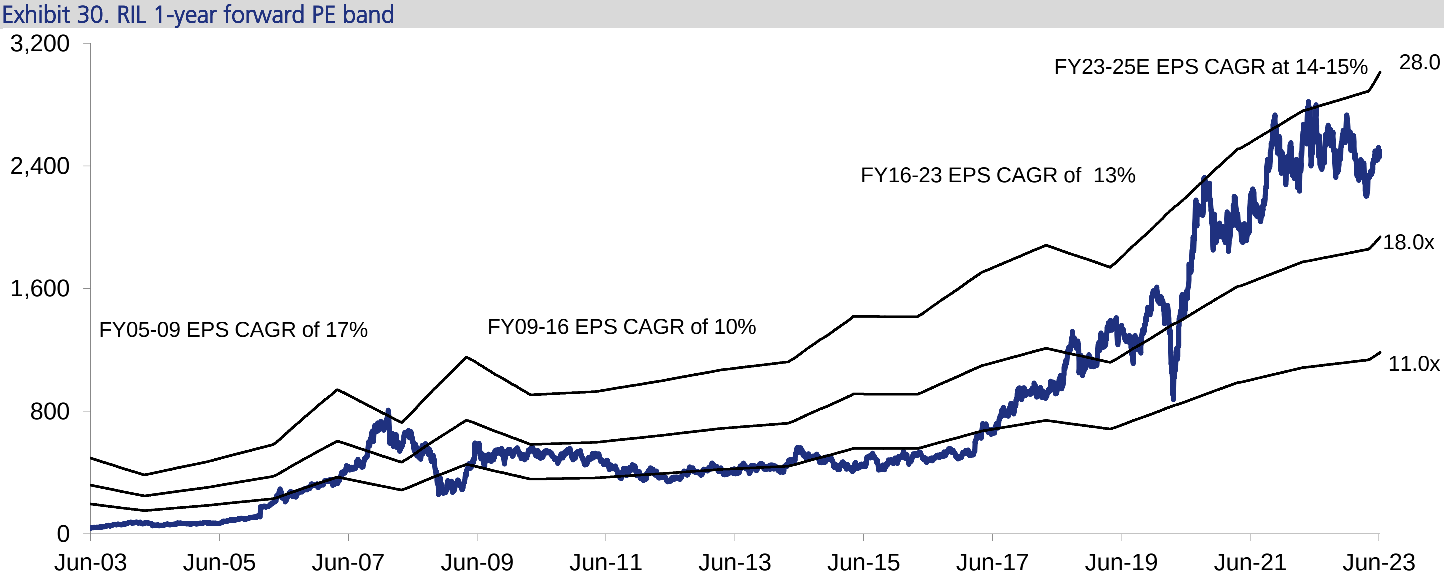
d) ARPU and subscriber sensitivity: Every INR 10 increase/decrease in ARPU has a positive/negative impact of 1% on our valuation, 2% on our FY24E EPS, and 2% on our FY24E EBITDA. Every 20mn increase/decrease in subscribers has a positive/negative impact of 1% of our valuation, 1% our FY24E EPS, and 1% of our FY24E EBITDA. Lower-than-expected ARPU and subscriber growth could have a negative impact on RIL's earnings and valuation.

Exhibit 29. RIL earnings and valuation sensitivity

	FY24E Base case assumption	Change	Impact on FY24 EBITDA		Impact on FY24 EPS		Impact on TP	
			INR bn	% change	INR	% change	INR	% change
GRM (USD/bbl)	10.5	+/- USD 1/bbl	42	3%	4.6	4%	55	2%
Petchem EBITDA margins (USD/ton)	185	+/- USD 20/tn	29	2%	3.2	3%	44	2%
Retail EBITDA margins (%)	7.3%	+/- 0.5%	14	1%	1.6	2%	38	1%
Jio wireless ARPU	187	+/- INR 10	29.1	2%	2.2	2%	26	1%
Jio wireless subscriber (mn)	448	+/-20mn	12	1%	0.9	1%	32	1%
Base case			**1,582**		**103**		**2,900**	

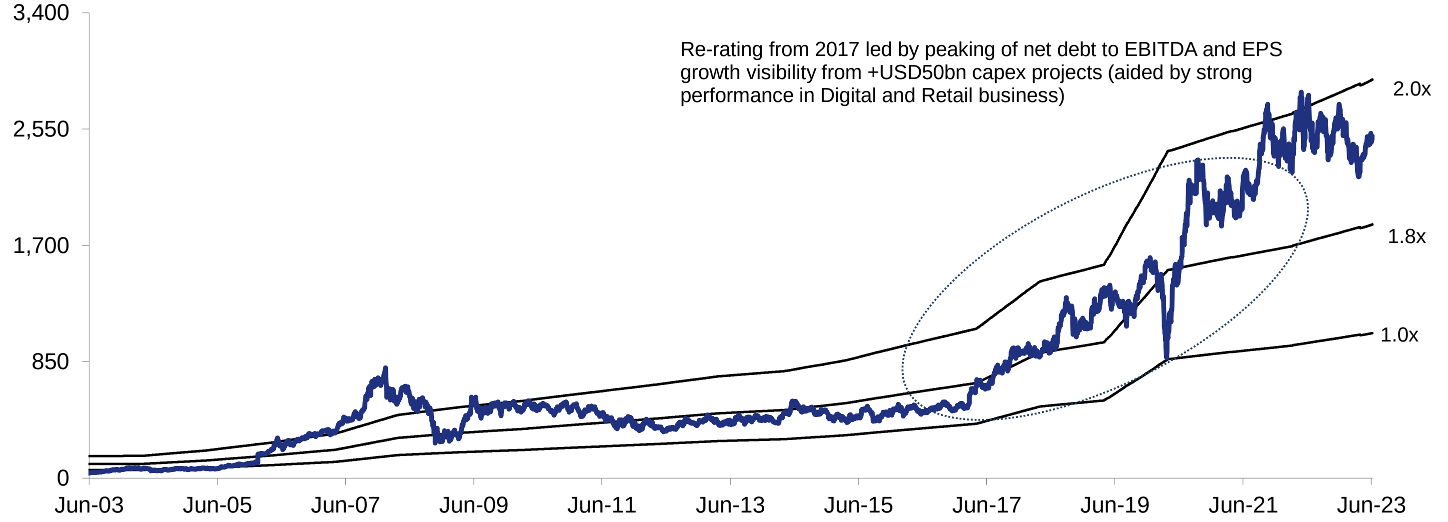
Source: JM Financial

Exhibit 30. RIL 1-year forward PE band



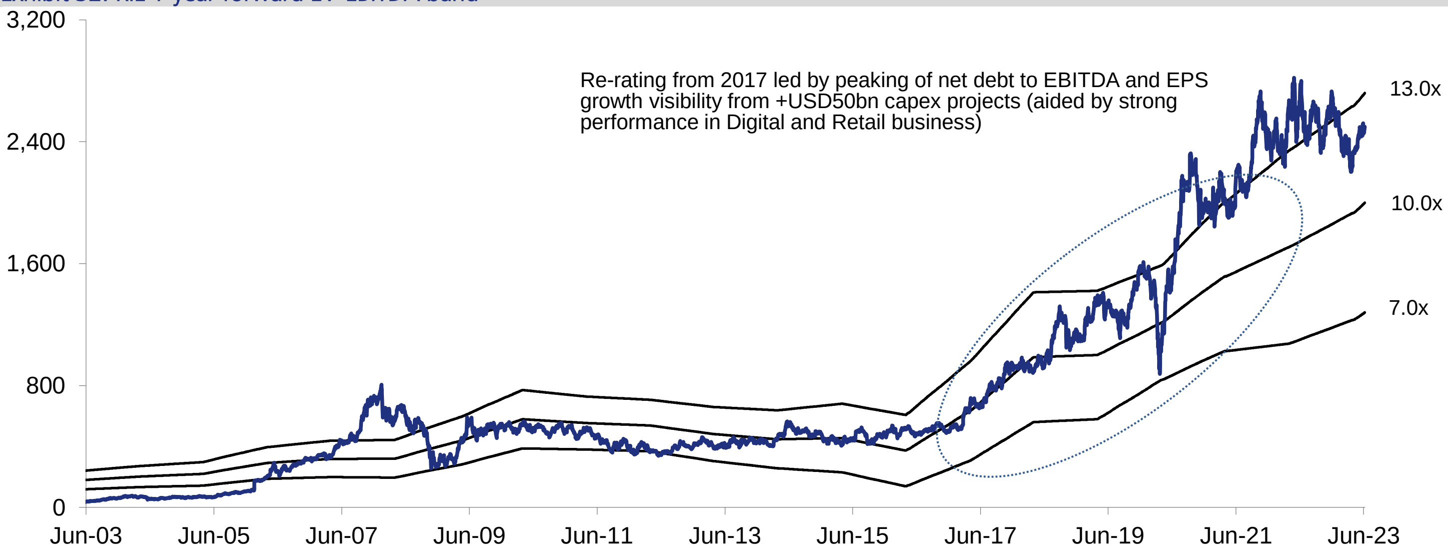
Source: JM Financial, Bloomberg

Exhibit 31. RIL 1-year forward PB band



Source: JM Financial, Bloomberg

Exhibit 32. RIL 1-year forward EV-EBITDA band



Source: JM Financial, Bloomberg

Exhibit 33. Global telecom and digital peers

	P/E			FY21-23 EPS	CY23/FY24	EV/EBITDA		
	CY21/FY22	CY22/FY23	CY23/FY24	CAGR	RoE	CY21/FY22	CY22/FY23	CY23/FY24
Jio (JMFe)	46.2	37.2	43.0	23.8%	7.1%	22.0	17.7	14.1
Bharti Airtel	77.8	45.7	24.8	NM	21.8%	11.4	9.9	8.5
Vodafone Idea	NM	NM	NM	NM	NM	14.1	13.8	11.6
Telecom comparables								
Vodafone Plc	NM	10.0	9.7	NM	5.3%	5.1	5.9	6.1
AT&T	8.1	7.3	7.8	-6.5%	16.7%	7.6	6.6	6.4
Verizon	9.6	7.4	8.1	-6.3%	20.6%	7.3	6.5	6.5
China Mobile	7.1	9.8	9.1	6.5%	10.3%	1.3	3.2	3.0
XL Axiata	26.2	17.7	18.5	-4.2%	5.7%	4.8	4.6	4.2
Telecom Indonesia	15.8	17.0	16.3	8.6%	19.1%	5.4	5.9	5.7
Maxis	24.5	22.2	21.3	7.4%	22.8%	10.3	10.1	9.9
Converge ICT	12.0	10.6	9.9	10.2%	18.9%	5.0	4.4	4.1
Globe Telecom	10.6	13.7	12.1	-6.1%	14.9%	6.7	6.5	6.3
Advanced Info	24.5	22.0	20.1	10.4%	33.9%	8.4	8.0	7.6
Telstra	24.1	25.4	23.0	8.0%	13.2%	8.1	8.3	8.0
Taiwan Mobile	25.4	23.8	22.3	6.7%	19.4%	12.4	11.5	11.5
Digital Comparables								
Tencent	28.2	25.0	27.5	-15.4%	13.3%	20.5	18.8	20.5
Alibaba	54.0	12.6	11.0	-1.7%	9.2%	25.2	7.4	6.4
Amazon	71.5	78.1	37.6	-11.1%	11.6%	26.1	14.4	12.2
Alphabet	28.8	20.0	18.3	-0.9%	24.3%	19.3	11.1	10.7
Facebook	24.4	18.5	16.7	-6.8%	19.7%	15.8	10.0	8.9
Netflix	56.0	31.0	26.5	3.5%	21.9%	41.2	24.4	20.6
Apple	26.3	25.9	26.6	2.5%	165.9%	19.4	18.7	19.6

Source: Bloomberg, JM Financial.

Exhibit 34. Global petchem companies' valuation snapshot

	EV/EBITDA (x)		EBITDA Margins (%)		P/E (x)		P/B (x)		ROE (%)	
Company	FY22CY21	FY23CY22	FY22CY21	FY23CY22	FY22CY21	FY23CY22	FY22CY21	FY23CY22	FY22CY21	FY23CY22
Global (ex Asia) peers										
DoW	5.1	7.6	16.7	12.9	8.2	16.0	2.1	1.8	24.2	11.1
Du Pont	10.8	11.1	25.0	25.1	20.9	18.3	1.2	1.2	5.6	6.3
Wacker Chemie	3.5	5.7	25.5	17.9	5.8	12.2	1.6	1.5	32.9	13.5
Johnson Matthey	6.1	6.8	18.6	16.5	9.3	10.4	1.4	1.4	14.7	12.9
LANXESS	7.5	7.5	11.4	11.5	9.3	10.9	0.7	0.6	7.6	8.7
BASF	5.6	6.7	12.2	10.7	6.8	10.3	1.0	1.0	8.2	9.4
Indorama ventures	5.0	6.2	14.1	12.1	4.5	7.0	1.0	0.9	23.8	13.5
SABIC	7.2	9.1	20.2	17.8	15.0	22.8	1.5	1.5	9.7	6.4
Honam Petrochemical	26.0	8.2	2.3	7.1	46.3	20.8	0.4	0.5	1.0	2.5
Eastman Chemical Co	7.6	7.9	17.7	17.4	9.8	10.3	1.9	1.7	18.2	15.9
Olin Corp	3.8	5.4	25.6	20.1	5.9	9.1	3.0	2.8	49.1	27.9
AKZO Nobel	13.8	12.0	10.6	12.4	23.9	19.1	2.3	2.5	9.2	12.0
Global (ex Asia) peers average	**8.9**	**8.1**	**15.8**	**14.7**	**14.5**	**14.4**	**1.4**	**1.3**	**14.1**	**10.2**
Asian peers										
Mitsubishi Gas Chem	5.8	5.7	12.8	11.5	8.0	7.6	0.7	0.7	9.5	8.9
Sinopec Shanghai Petrochemical	9.0	9.8	3.8	3.3	7.2	10.4	0.5	0.5	#N/A N/A	4.7
LG Chem	7.9	9.3	18.8	12.9	13.7	22.2	2.4	1.7	19.5	9.2
Formosa Chemicals & Fibre Corp	20.9	17.1	5.7	7.5	23.6	25.5	1.2	1.2	4.0	4.6
Nan Ya Plastics	12.2	13.0	15.1	13.6	15.7	19.1	1.6	1.6	10.0	9.1
Formosa Plastics	13.3	16.3	16.5	14.5	12.0	17.4	1.5	1.6	12.5	8.7
Hanwha	7.9	7.3	13.3	13.9	11.6	10.2	0.9	0.8	7.8	8.2
Asahi Kasei Corp	6.0	7.6	14.2	10.0	6.9	26.8	0.8	0.7	11.6	3.8
Toray Industries	8.5	9.1	11.3	9.3	12.7	15.3	0.9	0.8	7.5	5.4
Kuraray Co	4.6	4.4	18.2	17.9	8.5	8.8	0.6	0.6	7.9	7.0
Teijin Ltd	5.6	7.4	12.6	8.7	NM	#N/A N/A	0.6	0.6	7.7	-2.2
Mitsui Chemicals	5.8	5.4	14.4	12.7	6.2	6.6	1.0	0.8	16.4	13.0
RIL	16.4	12.8	16.0	15.6	24.7	21.3	1.9	1.8	8.0	8.3
Asian peers average	**9.5**	**9.6**	**13.3**	**11.7**	**12.6**	**15.9**	**1.1**	**1.0**	**10.2**	**6.8**
Global peers average	**9.0**	**8.8**	**16.7**	**15.1**	**13.2**	**14.9**	**1.3**	**1.2**	**13.6**	**9.1**
Global peers median	**7.5**	**7.6**	**14.4**	**12.9**	**9.6**	**13.8**	**1.2**	**1.2**	**9.6**	**8.7**

Source: JM Financial, Bloomberg

Exhibit 35. Global refiners' valuation snapshot

Company	EV/EBITDA (x)		EBITDA Margins (%)		P/E (x)		P/B (x)		ROE (%)	
	FY22CY21	FY23CY22	FY22CY21	FY23CY22	FY22CY21	FY23CY22	FY22CY21	FY23CY22	FY22CY21	FY23CY22
US peers										
Holly Corporation	9.5	8.8	74.0	77.1	9.9	8.6	NA	NA	28.7	27.0
Valero Energy	3.2	4.0	10.5	9.4	4.7	5.7	2.2	NA	50.9	32.9
US peers average	**6.4**	**6.4**	**42.3**	**43.3**	**7.3**	**7.1**	**2.2**	**NA**	**39.8**	**29.9**
European peers										
Galp Energia	3.0	3.3	16.5	16.2	NM	8.5	2.1	1.9	26.9	23.3
Motor Oil Hellas	2.3	3.5	10.5	7.2	2.4	4.1	NM	NM	58.3	25.5
New Zealand Refining	NM	NM	54.1	69.2	NM	NM	NM	NM	6.2	6.0
PKN Orlen	1.2	1.5	16.7	12.9	1.6	3.2	0.5	0.4	38.1	19.4
Saras	NM	2.0	8.2	4.4	NM	NM	1.0	1.0	54.8	16.7
MOL Hungarian oil & gas plc	1.6	2.2	18.0	14.4	NM	3.6	0.5	0.5	24.1	16.8
OMV Ag	1.8	2.4	26.6	22.0	2.9	4.1	0.6	0.7	24.8	15.6
European peers average	**2.0**	**2.5**	**21.5**	**20.9**	**2.3**	**4.7**	**1.0**	**0.9**	**33.3**	**17.6**
Asian peers										
GS Holdings	7.7	3.3	12.7	18.5	NM	1.5	0.4	0.3	-2.8	20.9
SK Energy Co Ltd	NM	4.9	8.3	9.0	NM	6.3	0.9	0.7	4.5	13.2
MRPL	5.2	5.4	7.3	4.8	3.2	4.6	0.9	1.2	31.8	17.2
CPCL	7.2	NM	2.9	NM	7.8	NM	1.7	NM	24.6	3.5
BPCL	8.9	16.5	4.6	1.9	7.3	71.6	1.4	1.4	18.8	-19.2
HPCL	9.3	8.3	3.4	-1.5	5.0	5.1	0.8	1.1	17.2	4.3
IOCL	5.9	11.4	7.7	2.9	4.3	26.1	0.9	0.8	19.3	8.3
RIL	16.4	12.8	16.0	15.6	24.7	21.3	1.9	1.8	8.0	8.3
Asian peers average	**8.6**	**8.7**	**8.0**	**7.2**	**8.7**	**18.3**	**1.1**	**1.0**	**15.0**	**7.1**
Global peers average	**5.9**	**6.1**	**17.1**	**17.1**	**6.7**	**12.3**	**1.1**	**1.0**	**24.8**	**13.7**
Global peers median	**5.5**	**4.4**	**10.5**	**9.4**	**4.7**	**5.7**	**0.9**	**0.8**	**24.3**	**16.2**

Source: JM Financial, Bloomberg

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	6,999,620	8,794,680	9,310,140	9,757,762	11,058,017
Sales Growth	49.9%	25.6%	5.9%	4.8%	13.3%
Other Operating Income	0	0	0	0	0
Total Revenue	**6,999,620**	**8,794,680**	**9,310,140**	**9,757,762**	**11,058,017**
Cost of Goods Sold/Op. Exp	4,749,120	5,892,800	6,238,180	6,538,105	7,409,329
Personnel Cost	187,750	248,940	261,387	274,456	288,179
Other Expenses	958,150	1,223,860	1,228,689	1,128,733	1,268,322
EBITDA	**1,104,600**	**1,429,080**	**1,581,885**	**1,816,468**	**2,092,186**
EBITDA Margin	15.8%	16.2%	17.0%	18.6%	18.9%
EBITDA Growth	36.8%	29.4%	10.7%	14.8%	15.2%
Depn. & Amort.	297,970	403,190	443,916	447,664	476,603
EBIT	806,630	1,025,890	1,137,969	1,368,803	1,615,583
Other Income	149,470	118,260	102,228	102,373	95,590
Finance Cost	145,840	195,710	199,117	198,180	197,186
PBT before Excep. & Forex	810,260	948,440	1,041,080	1,272,996	1,513,987
Excep. & Forex Inc./Loss(-)	28,360	0	0	0	0
PBT	838,620	948,440	1,041,080	1,272,996	1,513,987
Taxes	162,970	207,130	263,081	305,973	366,913
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	68,600	74,290	80,922	100,906	150,787
Reported Net Profit	607,050	667,020	697,078	866,117	996,288
Adjusted Net Profit	**578,690**	**667,020**	**697,078**	**866,117**	**996,288**
Net Margin	8.3%	7.6%	7.5%	8.9%	9.0%
Diluted Share Cap. (mn)	6,765.0	6,766.0	6,766.0	6,766.0	6,766.0
Diluted EPS (INR)	**85.5**	**98.6**	**103.0**	**128.0**	**147.2**
Diluted EPS Growth	26.8%	15.2%	4.5%	24.2%	15.0%
Total Dividend + Tax	54,120	54,128	67,660	81,192	94,724
Dividend Per Share (INR)	8.0	8.0	10.0	12.0	14.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	7,794,850	8,211,530	8,825,534	9,547,451	10,390,381
Share Capital	67,650	67,660	67,660	67,660	67,660
Reserves & Surplus	7,727,200	8,143,870	8,757,874	9,479,791	10,322,721
Preference Share Capital	0	0	0	0	0
Minority Interest	1,094,990	1,130,090	1,200,935	1,289,360	1,423,290
Total Loans	2,663,050	3,147,080	3,282,983	3,248,699	3,311,395
Def. Tax Liab. / Assets (-)	486,010	587,840	599,924	613,505	626,493
Total - Equity & Liab.	**12,038,900**	**13,076,540**	**13,909,377**	**14,699,014**	**15,751,559**
Net Fixed Assets	8,003,040	10,170,450	11,113,772	11,894,092	12,620,670
Gross Fixed Assets	8,916,940	10,268,170	11,665,191	12,902,762	14,115,339
Intangible Assets	130,090	136,620	136,620	136,620	136,620
Less: Depn. & Amort.	2,769,050	3,172,240	3,616,156	4,063,820	4,540,423
Capital WIP	1,725,060	2,937,900	2,928,117	2,918,530	2,909,134
Investments	3,942,640	3,366,330	3,366,330	3,366,330	3,366,330
Current Assets	3,040,540	3,582,850	3,725,749	3,679,420	4,094,214
Inventories	1,077,780	1,400,080	1,397,379	1,396,824	1,487,206
Sundry Debtors	236,400	284,510	299,947	313,849	356,273
Cash & Bank Balances	361,780	747,080	866,063	794,278	1,055,407
Loans & Advances	40,950	42,650	51,813	61,441	75,724
Other Current Assets	1,323,630	1,108,530	1,110,548	1,113,028	1,119,602
Current Liab. & Prov.	2,947,320	4,043,090	4,296,474	4,240,828	4,329,655
Current Liabilities	1,593,300	1,471,780	1,753,671	1,720,343	1,830,368
Provisions & Others	1,354,020	2,571,310	2,542,803	2,520,484	2,499,287
Net Current Assets	93,220	-460,240	-570,725	-561,407	-235,441
Total – Assets	**12,038,900**	**13,076,540**	**13,909,377**	**14,699,014**	**15,751,559**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	838,620	948,440	1,041,081	1,272,996	1,513,987
Depn. & Amort.	297,970	403,190	443,916	447,664	476,603
Net Interest Exp. / Inc. (-)	20,140	82,930	96,889	95,807	101,596
Inc (-) / Dec in WCap.	7,250	-196,340	269,156	-46,675	-22,782
Others	-19,470	-24,930	0	0	0
Taxes Paid	-37,970	-62,970	-250,997	-292,392	-353,925
Operating Cash Flow	**1,106,540**	**1,150,320**	**1,600,044**	**1,477,401**	**1,715,479**
Capex	-1,001,450	-1,409,880	-1,387,238	-1,227,984	-1,203,181
Free Cash Flow	105,090	-259,560	212,806	249,417	512,298
Inc (-) / Dec in Investments	2,590	294,440	-11,180	-12,109	-20,858
Others	-92,760	245,870	102,228	102,373	95,590
Investing Cash Flow	**-1,091,620**	**-869,570**	**-1,296,190**	**-1,137,719**	**-1,128,449**
Inc / Dec (-) in Capital	4,550	4,790	-25,490	-75,490	-75,490
Dividend + Tax thereon	0	0	0	0	0
Inc / Dec (-) in Loans	98,500	380,750	107,396	-56,603	41,499
Others	69,840	-280,990	-266,777	-279,372	-291,910
Financing Cash Flow	**172,890**	**104,550**	**-184,871**	**-411,466**	**-325,901**
Inc / Dec (-) in Cash	**187,810**	**385,300**	**118,983**	**-71,784**	**261,129**
Opening Cash Balance	173,970	361,780	747,080	866,063	794,278
Closing Cash Balance	361,780	747,080	866,063	794,278	1,055,407

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.3%	7.6%	7.5%	8.9%	9.0%
Asset Turnover (x)	0.6	0.7	0.6	0.6	0.7
Leverage Factor (x)	1.6	1.7	1.7	1.7	1.6
RoE	7.8%	8.3%	8.2%	9.4%	10.0%

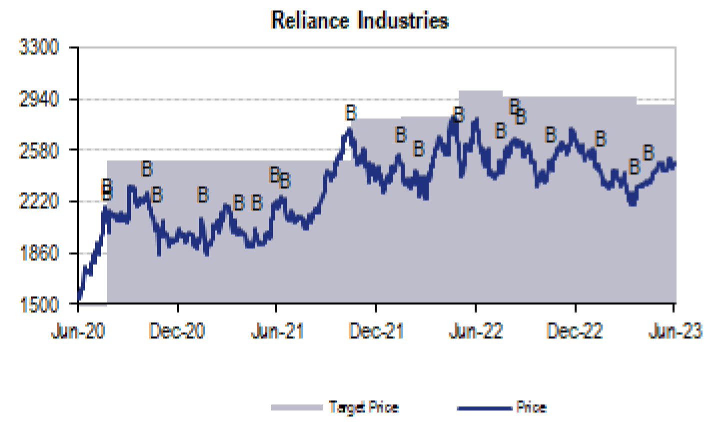
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	1,152.2	1,213.6	1,304.4	1,411.1	1,535.7
ROIC	9.5%	10.3%	9.7%	10.9%	11.9%
ROE	7.8%	8.3%	8.2%	9.4%	10.0%
Net Debt/Equity (x)	0.2	0.1	0.1	0.1	0.1
P/E (x)	29.2	25.3	24.2	19.5	17.0
P/B (x)	2.2	2.1	1.9	1.8	1.6
EV/EBITDA (x)	17.4	13.4	12.2	10.7	9.2
EV/Sales (x)	2.7	2.2	2.1	2.0	1.7
Debtor days	12	12	12	12	12
Inventory days	56	58	55	52	49
Creditor days	99	73	83	79	75

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
30-Jul-20	Buy	2,500	
31-Jul-20	Buy	2,500	0.0
11-Oct-20	Buy	2,500	0.0
31-Oct-20	Buy	2,500	0.0
23-Jan-21	Buy	2,500	0.0
31-Mar-21	Buy	2,500	0.0
2-May-21	Buy	2,500	0.0
6-Jun-21	Buy	2,500	0.0
24-Jun-21	Buy	2,500	0.0
23-Oct-21	Buy	2,800	12.0
22-Jan-22	Buy	2,815	0.5
23-Feb-22	Buy	2,815	0.0
7-May-22	Buy	3,000	6.6
23-Jul-22	Buy	2,950	-1.7
17-Aug-22	Buy	2,950	0.0
29-Aug-22	Buy	2,950	0.0
24-Oct-22	Buy	2,950	0.0
22-Jan-23	Buy	2,950	0.0
28-Mar-23	Buy	2,900	-1.7
22-Apr-23	Buy	2,900	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd. and National Stock Exchange of India Ltd.
SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610
Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.
Board: +9122 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com
Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REIT refers to Real Estate Investment Trusts.

Research Analyst(s) Certification

The Research Analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that:

All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and

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