

Cholamandalam Inv. & Finance

 Estimate change 

 TP change 

 Rating change 

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Bloomberg	CIFC IN
Equity Shares (m)	820
M.Cap.(INRb)/(USD\$b)	166 / 2.3
52-Week Range (INR)	349 / 117
1, 6, 12 Rel. Per (%)	-1/-30/-22
12M Avg Val (INR M)	1250

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Total Income	40.6	42.5	48.2
PPP	24.8	26.8	30.9
PAT	10.5	11.8	16.2
EPS (INR)	12.8	14.4	19.7
EPS Gr. (%)	-15.4	12.0	37.3
BV (INR)	98	110	128
Valuations			
NIM (%)	6.5	6.7	6.8
C/I ratio (%)	38.9	37.1	36.0
RoAA (%)	1.7	1.8	2.2
RoE (%)	15.0	13.8	16.6
Payout (%)	11.7	11.1	8.6
Valuations			
P/E (x)	15.8	14.1	10.3
P/BV (x)	2.1	1.8	1.6
Div. Yield (%)	0.7	0.8	0.8

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.7	51.7	52.9
DII	27.8	27.0	16.9
FII	11.9	12.2	19.0
Others	8.7	9.1	11.2

FII Includes depository receipts

CMP: INR203
TP: INR245 (+21%)
Buy

Business stable; ECL buffer needs to shore up

- CIFIC's 1QFY21 reported PAT was up 37% YoY to INR4.3b (est.: INR1.6b); the beat was largely driven by much lower provisioning of INR562m (est.: INR3.5b). Additionally, opex declined 14% QoQ to INR3.9b (13% lower than est.), which led to a 12% beat in PPop to INR6.3b.
- While the moratorium rate was largely stable at 76%, we note that 34% of customers have paid at least one full installment and another 16% have paid part installments (refer to Exhibit 1). Also, ~40% of AUM under moratorium has a vintage of two to three years (refer to Exhibit 2).

Disbursements surprise; spreads expand sequentially

- Disbursements of INR36b in 1QFY21 beat our expectation of INR21b. Interestingly, the Tractors / Construction Equipment product segments witnessed a QoQ pickup in disbursements, while those in other products were down 20–80%.
- As a result, AUM grew 5% QoQ to INR635b. While yield on loans was flat QoQ at 14.6%, cost of funds declined 30bp QoQ to 8.0%.
- CIFIC has INR81b liquidity on the balance sheet. This may be trimmed to INR60b over the course of the year.

GNPL ratio improves; lower ECL provisioning during the quarter

- The GNPL ratio improved by 50bp QoQ to 3.3%. However, the company lowered its total ECL buffer to INR14.4b QoQ from INR15.2b. The management believes COVID-19 provisions are largely adequate.
- With the provision reversal, credit costs came in at INR562m (down ~50% YoY). The total outstanding for the COVID-19 impact stood at INR5.5b.

Key management call highlights

- Collection efficiency in July is stable MoM. Truck utilization has declined in the month due to lockdown in Tier 2/3 towns as well as seasonality.
- When truck capacity utilization is at 65%+, the customer is able to service the EMI.
- It has recently tied up with one of the Top 3 tractor OEMs.

Valuation and view

Recovery in auto demand in 1QFY21 is not only encouraging but also meaningfully ahead of our expectations. In our view, products linked to farm income, such as tractors, are likely to fare better given the strong monsoons and healthy rabi crop harvest. In other segments, while demand would recover gradually, we do not foresee it returning to normal this fiscal. In our view, AUM is likely to grow at a ~10% CAGR over the next two years. On the asset quality front, the true picture should emerge only in 2HFY21 post the lifting of the moratorium. In our view, the company would have to meaningfully step up its provision buffer in 2HFY21. We tweak our AUM and credit cost estimates for FY21/FY22E – as a result, our EPS is upgraded by 15–20% off a low base. Maintain Buy, with TP of INR245 (2x FY22E BVPS).

Research Analyst: Piran Engineer (Piran.Engineer@MotilalOswal.com) | Alpesh Mehta (Alpesh.Mehta@MotilalOswal.com)

Nitin Aggarwal (Nitin.Aggarwal@MotilalOswal.com) | Divya Maheshwari (Divya.Maheshwari@motilalosal.com)

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Quarterly performance												(INR m)	
Y/E March	FY20				FY21				FY20	FY21E	1QFY21E	v/s Est.	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE					
Income from Operations	20,295	21,970	22,749	21,513	21,137	21,952	22,552	23,271	86,529	88,912	21,015	1	
Interest Expenses	10,870	11,769	11,924	11,359	11,307	11,646	11,762	11,688	45,922	46,403	11,359	0	
Net interest income	9,425	10,200	10,825	10,154	9,830	10,307	10,790	11,583	40,607	42,509	9,657	2	
YoY Growth (%)	16.3	24.6	23.7	13.0	4.3	1.0	-0.3	14.1	19.3	4.7	2.5		
Total income	9,425	10,201	10,825	10,156	9,830	10,308	10,791	11,583	40,609	42,512	9,657	2	
YoY Growth (%)	16.2	24.6	23.7	13.0	4.3	1.0	-0.3	14.1	19.3	4.7	2.5		
Operating Expenses	3,500	4,016	4,244	4,016	3,458	3,769	4,009	4,524	15,776	15,761	3,954	-13	
Operating Profit	5,925	6,185	6,581	6,140	6,372	6,538	6,782	7,060	24,833	26,751	5,703	12	
YoY Growth (%)	11.9	17.0	17.6	18.8	7.5	5.7	3.1	15.0	16.3	7.7	-3.8		
Provisions & Loan Losses	1,095	952	1,360	5,567	562	2,400	3,500	4,534	8,973	10,996	3,500	-84	
Profit before Tax	4,830	5,233	5,221	573	5,810	4,138	3,282	2,526	15,860	15,755	2,203	164	
Tax Provisions	1,688	2,163	1,336	147	1,501	1,035	820	615	5,334	3,970	555	170	
Net Profit	3,142	3,070	3,885	427	4,310	3,104	2,461	1,911	10,526	11,785	1,648	162	
YoY Growth (%)	10.2	0.8	27.6	-85.4	37.1	1.1	-36.7	347.9	-11.3	12.0	-47.6		
Key Parameters (Calc., %)													
Yield on loans	14.2	14.7	15.0	14.6	14.6				15.0	14.5			
Cost of funds	8.2	8.5	8.6	8.3	8.0				8.7	8.1			
Spread	6.0	6.2	6.4	6.4	6.6				6.3	6.5			
NIM	6.1	6.2	6.6	6.5	6.6				6.5	6.7			
C/I ratio	37.1	39.4	39.2	39.5	35.2				38.9	37.1			
Credit cost	0.8	0.7	0.9	3.7	0.4				1.6	1.7			
Tax rate	34.9	41.3	25.6	25.6	25.8				33.6	25.2			
Balance Sheet Parameters													
Disbursements (INR b)	85.7	73.8	74.8	56.6	35.9				290.9	227.6			
Growth (%)	22.2	7.0	-0.7	-36.3	-58.1				-4.5	-21.7			
AUM (INR b)	574.9	592.9	607.8	605.5	635.0				605.8	677.3			
Growth (%)	26.8	24.2	20.6	11.6	10.4				11.6	11.8			
AUM mix (%)													
Vehicle finance	74.8	74.0	73.4	73.0	73.7				72.8	73.9			
Home Equity	21.1	21.3	21.4	21.4	21.1				21.6	19.7			
Others	4.2	4.7	5.2	5.6	5.2				5.6	6.3			
Borrowings (INR b)	551.2	559.0	549.4	550.1	585.1				550.1	602.8			
Growth (%)	33.5	18.8	16.3	8.8	6.2				8.8	9.6			
Asset Quality Parameters													
GS 3 (INR B)	16.7	18.0	20.2	21.6	20.0				21.6	32.6			
GS 3 (%)	3.0	3.2	3.5	3.8	3.3				3.9	5.2			
- Vehicle finance	2.0	2.3	2.7	3.2	2.4								
- Home Equity	5.6	5.9	6.0	7.7	6.9								
NS 3 (INR B)	10.7	11.8	13.6	12.7	11.7				12.7	21.8			
NS 3 (%)	1.9	2.1	2.4	2.3	2.0				2.2	3.5			
PCR (%)	36.1	34.4	33.0	41.5	41.6				45.2	33.0			
Total ECL (%)	1.7	1.8	1.9	2.7	2.4				2.7				
Vehicle finance AUM mix (%)													
LCV	21.6	21.3	21.1	21.3	21.2								
Cars & MUV	16.3	16.5	17.0	17.2	17.1								
3W & SCV	5.8	6.1	6.3	6.4	6.2								
Used CV	12.6	12.9	13.3	26.0	25.7								
Tractor	7.4	7.4	7.6	7.7	8.7								
HCV	16.4	15.3	13.6	12.7	11.9								
Refinance	12.4	12.6	12.7	0.0	0.0								
CE	4.9	4.9	4.9	5.0	5.3								
Two wheeler	2.6	3.1	3.5	3.7	3.9								

Source: Company, MOFSL



Highlights from management commentary

Business updates

- June 2020 disbursements were 75% of June 2019 disbursements. The improving trend is likely to continue.
- **Company's market share performance YoY – Overall Auto: 1.7% to 3.99%; CV: 13% to 23%; PV: 3% to 6%; 3W: 3% to 19%; 2W: 1% to 2%; Tractors: 6% to 11%; Construction Equipment: 8% to 21%**
- Activity in rural areas is higher than in urban areas. Hence, truck owners are finding more work opportunities in these regions.
- It renegotiated some rental agreements, leading to a one-time reduction in rent. In addition, lower business activity led to lower opex in the quarter.
- **Truck capacity utilization increased significantly in June, but declined in July due to lockdown in Tier 2/3 towns as well as seasonality.**
- It has recently tied up with one of the Top 3 tractor OEMs and also expanded market share in the Top 3 OEMs. This is one of the reasons for strong tractor disbursements this quarter.

Asset quality / Moratorium

- Moratorium rate is high at 76% as customers face uncertainty in their businesses.
- Some customers moved from non-moratorium to moratorium and vice-versa from phase 1 to phase 2.
- **COVID-19 provisions are believed to be adequate. It would continue to evaluate and make further provisions if required.**
- **Collection efficiency in July is stable MoM.**
- GNPL ratio – VF: 2.41%, LAP: 6.9%, HL: 3.5%
- It wrote-off some old overdues in vehicle finance in the quarter.
- NRRB for the 1-2 bucket improved to 33.98% in June from 26.79% in May. Similarly, that for HCVs improved to 30% in June from 17% in May.
- Moratorium was given to customers even in the 180dpd bucket, as per the board's resolution. No moratorium is being offered to new contracts.

Liquidity/Funding

- Liquidity on the balance sheet would hover around INR60b through the remainder of the year.
- Behavioral ALM in the PPT reflects some conservatism in collections immediately post the lifting of the moratorium.
- Incremental cost of funds: 3-month money - 7%; Banks - 7.5%

Others

- Business was muted in April due to underlying pain in the Auto segment, coupled with supply shortage at the dealer level and nationwide shortage.
- Do not expect LGDs to increase.
- Margins are down due to the liquidity drag.
- **When truck capacity utilization is at 65%+, the customer is able to service the EMI.**

- 90% of home loan branches are in Tier 2, 3, and 4 towns. The bulk of the portfolio is to do with self-construction. Disbursements in June were at 50% of the prior peak.
- No top-up loans were reported in the quarter.
- For those who availed moratorium, the tenure would get extended accordingly.
- The restating of FY19 GNPL numbers in the FY20 Annual Report was due to the migration from IGAAP to Ind-AS. Also, under Ind-AS, the Stage 3 number includes accrued interest.
- LGD in VF on average is at 28–30%. LGD is lower for customers with higher vintage.

Exhibit 1: 50% of moratorium customers have paid some amount since the beginning of the moratorium

Moratorium Months	No of contracts	Part EMI	1EMIs	2EMIs	3EMIs	4+EMIs	1+EMIs
1m	40,953	17%	31%	0%	0%	0%	31%
2m	30,690	18%	18%	27%	0%	0%	45%
3m	48,213	12%	20%	9%	7%	0%	36%
4m	83,910	8%	23%	20%	14%	5%	62%
5m	4,75,082	10%	21%	10%	7%	5%	42%
6m	4,37,709	25%	10%	3%	2%	3%	18%
Total	11,16,557	16%	17%	8%	5%	4%	34%

Source: MOFSL, Company

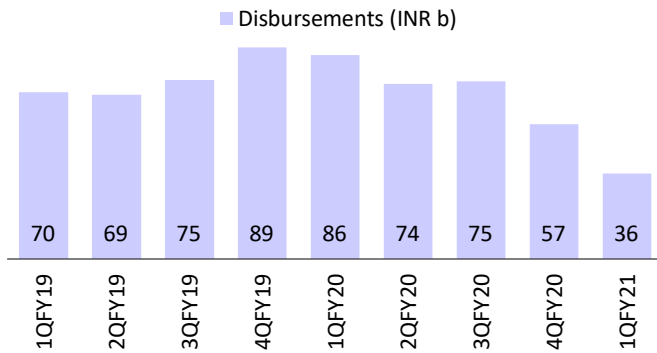
Exhibit 2: ~30% of Stage 1 moratorium customers/AUM have a loan vintage of 2+ years; implying very low outstanding LTV

Moratorium by vintage, %	Stage 1		Stage 2		Stage 3	
	No of contracts	AUM	No of contracts	AUM	No of contracts	AUM
0-6m	8.4	8.9	0.8	0.6	-	-
6-12m	24.8	23.0	5.4	4.8	2.8	2.4
12-18m	22.4	23.4	14.6	15.2	15.4	17.6
18-24m	15.8	15.6	16.9	17.1	18.2	17.6
24-36m	19.8	18.8	38.2	34.4	39.4	40.0
>36m	8.8	10.2	24.1	27.9	24.1	22.4
Total*	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: MOFSL, Company, *Total contracts- Stage 1/2/3: 10,82,816/29,907/3,834. Total AUM – Stage 1/2/3 : INR481.21b, INR16.35b/ INR 1.65b

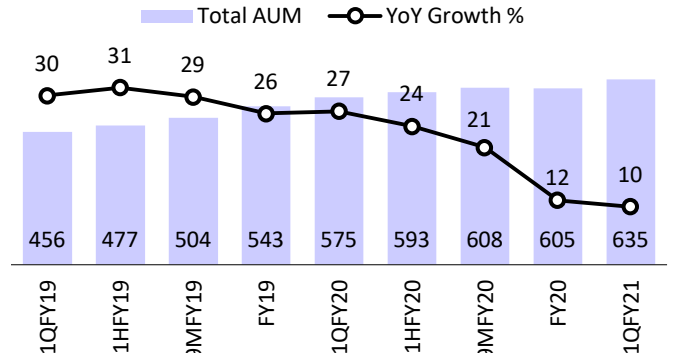
Key exhibits

Exhibit 3: Overall disbursements decline sharply...



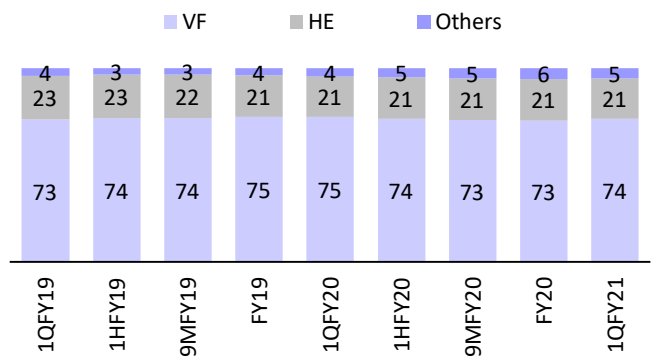
Source: MOFSL, Company

Exhibit 4: ...AUM grows 10% YoY



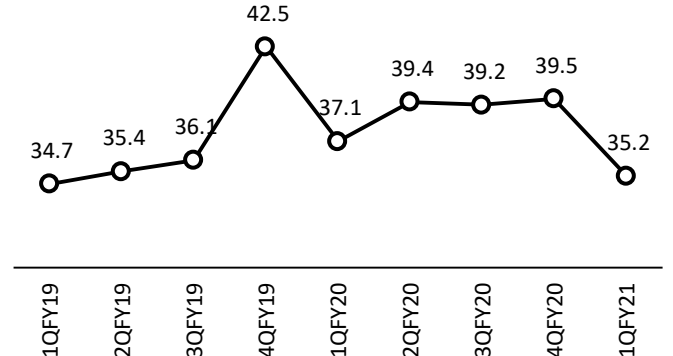
Source: MOFSL, Company

Exhibit 5: AUM mix largely stable (%)



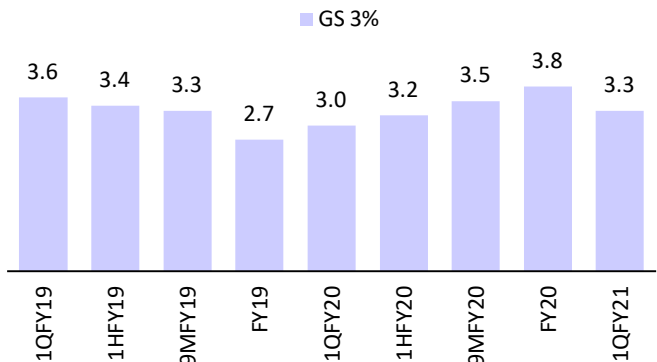
Source: MOFSL, Company

Exhibit 6: 435bp decline in C/I due to lower other expenses



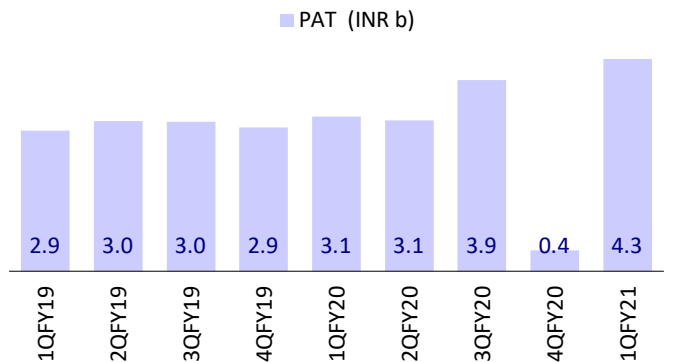
Source: MOFSL, Company, GS3% on loans

Exhibit 7: Gross Stage 3 improves 50bp QoQ



Source: MOFSL, Company

Exhibit 8: PAT up sharply due to lower COVID-19 provisions



Source: MOFSL, Company

Valuation and view

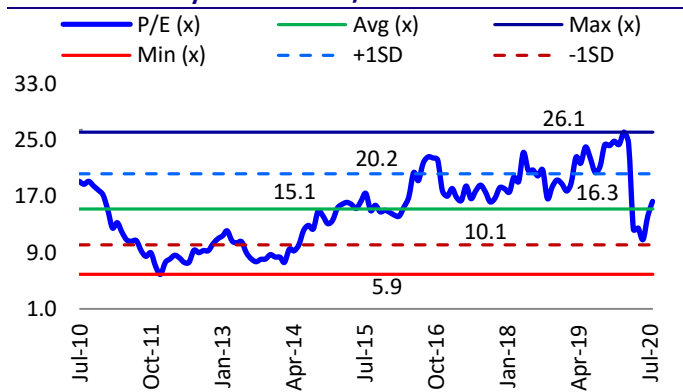
- Two aspects of CIFIC's Vehicle Finance business stand out v/s most peers: (i) it is well-diversified across product segments and (ii) there is no state-level concentration – the largest state accounts for only 11% of the total portfolio.
- Recovery in auto demand in 1QFY21 is not only encouraging but also meaningfully ahead of our expectations. In our view, products linked to farm income, such as tractors, are likely to fare better given the strong monsoons and healthy rabi crop harvest. In other segments, while demand would recover gradually, we do not foresee it returning to normal this fiscal. In our view, AUM is likely to grow at a ~10% CAGR over the next two years.
- Strong asset quality has been a hallmark for CIFIC. The company has typically maintained low credit costs (sub-100bp) compared with peers such as SHTF and MMFS (200bp+).
- However, a true picture should emerge only in 2HFY21 post the lifting of the moratorium. In our view, the company would have to meaningfully step up its provision buffer in 2HFY21.
- We tweak our AUM and credit cost estimates for FY21/FY22E – as a result, our EPS is upgraded by 15–20% off a low base. Maintain Buy, with TP of INR245 (2x FY22E BVPS).

Exhibit 9: We increase our EPS estimates to factor higher AUM and modestly lower credit costs

INR B	Old Est.		New Est.		% change	
	FY21	FY22	FY21	FY22	FY21	FY22
NII (incl. Sec. Inc.)	38.7	42.3	40.2	45.7	4.0	7.9
Other Income	2.1	2.3	2.3	2.5	12.0	12.0
Operating Expenses	16.4	17.9	15.8	17.3	-3.7	-3.0
Operating Profits	24.3	26.7	26.8	30.9	9.9	15.6
Provisions	10.7	9.1	11.0	9.2	2.6	1.8
PBT	13.6	17.6	15.8	21.6	15.6	22.7
Tax	3.4	4.4	4.0	5.5	15.6	22.7
PAT	10.2	13.2	11.8	16.2	15.6	22.7
AUM	635	689	677	738	6.7	7.1
Loans	586	636	629	685	7.3	7.7
Credit Cost	1.7	1.4	1.7	1.3		
RoA on AUM	1.6	1.9	1.8	2.2		
RoE	12.1	13.9	13.8	16.6		
AUM	635	689	677	738	6.7	7.1

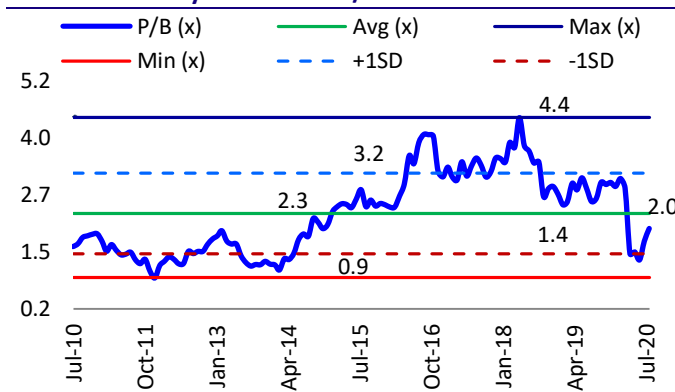
Source: MOFSL, Company

Exhibit 10: One-year forward P/E



Source: MOFSL, Company

Exhibit 11: One-year forward P/B



Source: MOFSL, Company

Valuation matrix

	Rating	CMP (INR)	Mcap (USD b)	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HFCs											
HDFC*	Buy	1,783	41.7	16.9	12.8	1.8	1.4	1.8	1.8	13.0	12.9
LICHF	Buy	262	1.8	6.2	5.5	0.7	0.6	1.0	1.1	11.5	11.8
PNBHF	Neutral	209	0.5	4.7	3.5	0.4	0.4	1.0	1.3	9.1	11.3
Vehicle fin.											
SHTF	Buy	692	2.1	10.3	6.1	0.8	0.7	1.5	2.6	8.7	13.0
MMFS	Buy	130	1.1	17.7	14.6	1.0	1.0	1.2	1.5	6.8	7.0
CIFC	Buy	203	2.3	16.9	12.6	1.9	1.7	1.5	1.9	11.6	14.0
Diversified											
BAF	Neutral	3,252	25.8	44.0	26.9	5.4	4.5	2.5	3.6	12.9	18.3
SCUF	Buy	658	0.6	6.0	5.7	0.6	0.5	2.3	2.3	9.6	9.2
LTFH	Buy	60	1.6	12.2	6.3	0.8	0.7	0.9	1.7	6.7	12.0
MUTH	Neutral	1,273	7.0	14.2	12.4	3.5	2.9	6.7	6.7	27.7	25.6
MAS	Buy	642	0.5	20.8	17.4	3.1	2.8	3.7	4.0	16.0	16.9

*adjusted for investments in subsidiaries

Financials and valuations

Income Statement								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Interest Income	39,163	43,717	51,862	65,755	81,242	85,750	93,965	1,03,349
Interest Expenses	20,508	22,308	26,593	35,887	45,922	46,403	49,163	53,728
Net Interest Income	18,655	21,409	25,268	29,868	35,319	39,348	44,801	49,621
Change (%)	24.4	14.8	18.0	18.2	18.3	11.4	13.9	10.8
Income from assignments	2,053	2,103	0	867	2,473	865	865	995
Other Operating Income	708	776	2,931	3,298	2,812	2,296	2,526	2,778
Total Income	21,429	24,295	28,203	34,039	40,607	42,512	48,195	53,397
Change (%)	23.8	13.4	16.1	20.7	19.3	4.7	13.4	10.8
Total Operating Expenses	8,449	10,133	11,153	12,696	15,776	15,761	17,337	19,070
Change (%)	12.8	19.9	10.1	13.8	24.3	-0.1	10.0	10.0
Employee Expenses	2,539	4,027	5,368	5,906	6,550	6,616	7,277	8,005
Business Origination Expenses	2,258	1,784	775	1,525	1,982	1,922	2,115	2,326
Other Operating Expenses	3,652	4,323	5,010	5,265	7,244	7,223	7,945	8,739
Operating Profit	12,980	14,162	17,051	21,344	24,831	26,751	30,858	34,326
Change (%)	32.2	9.1	20.4	25.2	16.3	7.7	15.4	11.2
Total Provisions	4,272	3,106	3,037	3,112	8,973	10,996	9,225	7,385
% of Operating Profit	32.9	21.9	17.8	14.6	36.1	41.1	29.9	21.5
PBT	8,708	11,056	14,014	18,232	15,857	15,755	21,633	26,942
Tax Provisions	3,023	3,868	4,831	6,370	5,334	3,970	5,452	6,789
Tax Rate (%)	34.7	35.0	34.5	34.9	33.6	25.2	25.2	25.2
PAT	5,685	7,187	9,183	11,862	10,524	11,785	16,182	20,153
Change (%)	30.6	26.4	27.8	29.2	-11.3	12.0	37.3	24.5
Proposed Dividend	703	860	1,017	1,017	1,230	1,312	1,394	1,394

Balance Sheet								(INR m)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	1,562	1,564	1,564	1,564	1,640	1,640	1,640	1,640
Reserves & Surplus	35,012	40,062	48,194	58,973	78,603	88,814	1,03,323	1,21,803
Net Worth for Equity Shareholders	36,574	41,626	49,758	60,537	80,243	90,453	1,04,963	1,23,443
Borrowings	2,25,762	3,02,001	3,83,303	5,05,667	5,50,054	6,02,803	6,49,766	7,19,107
Change (%)	15.9	33.8	26.9	31.9	8.8	9.6	7.8	10.7
Total Liabilities	2,78,883	3,50,372	4,40,897	5,74,263	6,39,930	6,93,257	7,54,729	8,42,550
Investments	666	697	729	729	729	603	650	719
Change (%)	-1.3	4.6	4.7	0.0	0.0	-17.3	7.8	10.7
Loans	2,59,732	3,32,244	4,22,532	5,26,223	5,54,027	6,28,734	6,85,459	7,59,980
Change (%)	16.8	27.9	27.2	24.5	5.3	13.5	9.0	10.9
Net Fixed Assets	1,113	1,417	1,646	1,759	2,839	1,324	964	489
Total Assets	2,78,883	3,50,372	4,40,897	5,74,263	6,39,930	6,93,257	7,54,729	8,42,550

E: MOSL Estimates

Financials and valuations

Ratios	(%)							
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Spreads Analysis (%)								
Avg. Yield on Loans	16.2	14.8	13.7	13.9	15.0	14.5	14.3	14.3
Avg Cost of Funds	9.8	8.5	7.8	8.1	8.7	8.1	7.9	7.9
Int. Spread on Financing Portfolio	6.5	6.3	6.0	5.8	6.3	6.5	6.5	6.5
NIM (on loans)	7.7	7.2	6.7	6.3	6.5	6.7	6.8	6.9
Profitability Ratios (%)								
RoE	16.6	18.4	20.1	21.5	15.0	13.8	16.6	17.6
RoA	2.2	2.3	2.3	2.3	1.7	1.8	2.2	2.5
Int. Expended / Int. Earned	52.4	51.0	51.3	54.6	56.5	54.1	52.3	52.0
Other Inc. / Net Income	3.4	3.2	10.4	9.7	6.9	5.4	5.2	5.2
Efficiency Ratios (%)								
Op. Exps. / Net Income	39.4	41.7	39.5	37.3	38.9	37.1	36.0	35.7
Empl. Cost/Op. Exps.	30.1	39.7	48.1	46.5	41.5	42.0	42.0	42.0
Asset-Liability Profile (%)								
Loans/Borrowings Ratio	115.0	110.0	110.2	104.1	100.7	104.3	105.5	105.7
Net NPAs to Net Adv.	2.3	3.2	2.3	1.6	2.2	3.5	3.0	3.0
Assets/Equity	7.6	8.4	8.9	9.5	8.0	7.7	7.2	6.8
Valuations								
Book Value (INR)	46.8	53.2	63.6	77.4	97.9	110.3	128.0	150.6
BV Growth (%)	6.0	13.7	19.5	21.6	26.4	12.7	16.0	17.6
Price-BV (x)					2.1	1.8	1.6	1.3
EPS (INR)	7.3	9.2	11.7	15.2	12.8	14.4	19.7	24.6
EPS Growth (%)	20.1	26.3	27.7	29.1	-15.4	12.0	37.3	24.5
Price-Earnings (x)					15.8	14.1	10.3	8.3
Dividend per share	0.9	1.1	1.3	1.3	1.5	1.6	1.7	1.7
Dividend Yield (%)					0.7	0.8	0.8	0.8

E: MOSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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