

Tata Motors (TTMT IN)

Rating: HOLD | CMP: Rs105 | TP: Rs108

August 2, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

| | Current | | Previous | |
|----------------|-----------|-----------|-----------|-----------|
| | FY22E | FY23E | FY22E | FY23E |
| Rating | HOLD | | HOLD | |
| Target Price | 108 | | 100 | |
| Sales (Rs. m) | 28,44,005 | 31,90,661 | 28,69,031 | 31,08,237 |
| % Chng. | (0.9) | 2.7 | | |
| EBITDA (Rs. m) | 3,33,832 | 3,79,597 | 3,15,108 | 3,54,766 |
| % Chng. | 5.9 | 7.0 | | |
| EPS (Rs.) | 32.4 | 35.3 | 29.4 | 34.4 |
| % Chng. | 9.9 | 2.6 | | |

Key Financials - Consolidated

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-----------------|--------|---------|-------|-------|
| Sales (Rs. bn) | 2,611 | 2,585 | 2,844 | 3,191 |
| EBITDA (Rs. bn) | 239 | 238 | 334 | 380 |
| Margin (%) | 9.2 | 9.2 | 11.7 | 11.9 |
| PAT (Rs. bn) | (91) | 37 | 116 | 127 |
| EPS (Rs.) | (25.3) | 10.2 | 32.4 | 35.3 |
| Gr. (%) | 480.5 | (140.3) | 218.0 | 9.1 |
| DPS (Rs.) | - | - | - | - |
| Yield (%) | - | - | - | - |
| RoE (%) | (14.8) | 5.6 | 16.0 | 15.0 |
| RoCE (%) | (1.1) | 1.8 | 6.3 | 6.8 |
| EV/Sales (x) | 0.4 | 0.5 | 0.5 | 0.4 |
| EV/EBITDA (x) | 4.1 | 5.4 | 3.9 | 3.4 |
| PE (x) | (4.1) | 10.3 | 3.2 | 3.0 |
| P/BV (x) | 0.6 | 0.6 | 0.5 | 0.4 |

Key Data

TAMO.BO | TTMT IN

| | |
|---------------------|----------------------|
| 52-W High / Low | Rs.202 / Rs.64 |
| Sensex / Nifty | 37,607 / 11,073 |
| Market Cap | Rs.342bn / \$ 4,575m |
| Shares Outstanding | 3,089m |
| 3M Avg. Daily Value | Rs.14474.73m |

Shareholding Pattern (%)

| | |
|-------------------------|-------|
| Promoter's | 42.39 |
| Foreign | 15.62 |
| Domestic Institution | 13.22 |
| Public & Others | 28.76 |
| Promoter Pledge (Rs bn) | 5.41 |

Stock Performance (%)

| | 1M | 6M | 12M |
|----------|-------|--------|--------|
| Absolute | 6.5 | (40.7) | (22.8) |
| Relative | (1.1) | (35.8) | (23.1) |

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Mixed set; JLR better while S/A below estimates

Quick Pointers:

- FY21 focus areas for JLR - Deliver project charge+ cost savings of GBP2.5bn (v/s GBP1.5bn earlier). 1QFY21 savings were GBP1.2b.

- China JLR – turned EBIT positive at 0.4% (post 8 quarters of EBIT loss).

TTMT's 1QFY21 consolidated EBITDA exceeded expectations beating JLR performance led by cost savings and better realizations. JLR margins came in at 3.5% (PLe -13%). With China stabilizing post COVID and improvement in other global markets, JLR can see gradual volume recovery. Consistent delivery on cost savings (Project charge savings of GBP4.7bn till date and target of GBP6bn by 4QFY21) and rationalized capex (-60% in S/A at Rs15bn and -40% at JLR at GBP2.5bn) should help cash flows in challenging times. However, net consolidated automotive debt increased to Rs678bn as of Jun-20 (v/s Rs482.8bn in FY20). We increase FY22/23 consol EPS by 10%/3% to factor in better JLR performance and currency gains. We maintain Hold with the revised SoTP based target price of Rs108 (from Rs100, roll forwarded to Sep-22), where we value JLR and S/A business at 4x EV/EBITDA each (unchanged).

- Strong JLR performance led by cost savings:** JLR reported EBITDA of GBP101mn (-53% YoY) in 1QFY21, PLe of loss of GBP316mn led by, higher net realizations at GBP58.4k/unit (PLe 46.3k/unit) and cost savings. EBITDA margin was 3.5% (-70bp YoY, PLe -13.7%). ASPs increased by 20% YoY due to a favorable geographical mix (higher contribution from China) and favorable model mix (higher Land Rover mix). JLR furloughed 35% of the workforce in 1Q which led sharp decline in staff cost YoY at GBP435m (v/s GBP656m).
- Share of profit from China JV was Nil in 1Q (v/s loss of GBP53mn in 1QFY20).** This was due to sharp improvement in retail volumes. China JV reported EBITDA profit of GBP47mn (v/s EBITDA loss of GBP5m in 1QFY20). EBITDA margin for 1QFY21 stood at 9.8%.
- S/A continues to be under pressure:** S/A reported an EBITDA loss of Rs7bn (PLe of Rs6.3b) due to (1) lower volumes due in the month of April and May because of lockdown. (2) adverse product mix as M&HCV volumes fell by 90% YoY and (3) higher other expense at Rs6.6b (PLe Rs4bn).
- Con-call takeaways:** (1) JLR highlighted reopening of 98% of retailers with China and UK fully open. Huge increase in China JLR inventory at ~90 days (v/s target 55 days) will keep wholesale lower in 2Q. (2) **JLR liquidity** - has adequate cash balance of GBP2.7bn with additional undrawn revolving facility of GBP1.9bn. JLR total debt of GBP6.6bn. (3) **Defender (new launch) order book now at 30k units** (v/s dispatches of 7.9k in 1QFY21). (4) **Capex guidance** for India at Rs15bn and JLR at GBP 2.5bn for FY21. (5) In 1QFY21, JLR reported negative FCF of GBP1.5bn led by deterioration in working capital cycle (GBP1.1bn impact) and losses in operations (GBP413mn negative impact).

Exhibit 1: Q1FY21 Result Overview - Consolidated (Rs m)

| Y/e March | Q1FY21 | Q1FY20 | YoY gr. (%) | Q4FY20 | FY21E | FY20 | YoY gr. (%) |
|---|-----------------|-----------------|---------------|-----------------|------------------|------------------|--------------|
| Net Revenues | 3,19,831 | 6,14,670 | (48.0) | 6,24,930 | 25,85,149 | 26,10,680 | (1.0) |
| Raw Materials | 1,99,212 | 3,97,755 | (49.9) | 4,08,096 | 1,99,212 | 16,71,310 | (88.1) |
| <i>% of Net Sales</i> | <i>62.3</i> | <i>64.7</i> | | <i>65.3</i> | <i>7.7</i> | <i>64.0</i> | |
| Personnel | 56,943 | 77,196 | (26.2) | 76,987 | 56,943 | 3,04,386 | (81.3) |
| <i>% of Net Sales</i> | <i>17.8</i> | <i>12.6</i> | | <i>12.3</i> | <i>2.2</i> | <i>11.7</i> | |
| Manufacturing & Other Exp | 85,377 | 1,50,834 | (43.4) | 1,61,859 | 1,15,011 | 6,12,760 | (81.2) |
| <i>% of Net Sales</i> | <i>26.7</i> | <i>24.5</i> | | <i>25.9</i> | <i>4.4</i> | <i>23.5</i> | |
| Expenses capitalised | 28,057 | 41,069 | (31.7) | 45,746 | 28,057 | 1,75,034 | (84.0) |
| Total Expenditure | 3,13,475 | 5,84,715 | (46.4) | 6,01,196 | 23,87,865 | 24,13,422 | (1.1) |
| EBITDA | 6,356 | 29,955 | (78.8) | 23,733 | 1,97,285 | 1,97,258 | 0.0 |
| <i>EBITDA Margin (%)</i> | <i>2.0</i> | <i>4.9</i> | | <i>3.8</i> | <i>7.6</i> | <i>7.6</i> | |
| Depreciation | 55,994 | 51,117 | 9.5 | 58,149 | 1,66,361 | 2,14,254 | (22.4) |
| EBIT | -49,638 | -21,163 | NA | -34,415 | 30,924 | -16,996 | NA |
| Interest Expenses | 18,768 | 17,116 | 9.7 | 19,528 | 63,147 | 72,433 | (12.8) |
| Non-operating income | 6,065 | 8,360 | (27.4) | 5,645 | 70,813 | 29,732 | 138.2 |
| Forex gain | 471 | -1,375 | NA | -16,824 | -688 | -17,387 | NA |
| Extraordinary Exp/ Income | -32 | 1,088 | NA | 28,007 | -423 | 28,714 | NA |
| PBT | -61,837 | -32,382 | NA | -93,130 | 38,324 | -1,05,800 | NA |
| Tax-Total | 22,005 | 1,961 | NA | 3,583 | 1,929 | 3,953 | (51.2) |
| <i>Tax Rate (%) - Total</i> | <i>-35.6</i> | <i>-6.1</i> | | <i>-3.8</i> | <i>5.0</i> | <i>-3.7</i> | |
| Minority Interest / Share in Associates | -658 | -2,641 | NA | -2,230 | -45 | -10,956 | NA |
| Adj. PAT | -84,533 | -35,855 | NA | -70,936 | 35,911 | -91,968 | NA |

Source: Company, PL

Exhibit 2: SOTP valuation

| Rs/Share | Valuation Parameter | Multiple (x) | FY22E | FY23E |
|---------------------------|---------------------|--------------|------------|------------|
| Tata Motors - Standalone | EV/EBITDA | 8 | 77 | 110 |
| JLR | EV/EBITDA | 4 | 182 | 224 |
| Other Subs | | | 30 | 29 |
| Total EV | | | 290 | 363 |
| Less: Net Debt | | | 223 | 213 |
| Total Equity Value | | | 66 | 149 |

Source: PL

Financials

Income Statement (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|-------------------------------|-------------------|------------------|------------------|------------------|
| Net Revenues | 26,10,680 | 25,85,149 | 28,44,005 | 31,90,661 |
| YoY gr. (%) | (13.5) | (1.0) | 10.0 | 12.2 |
| Cost of Goods Sold | 16,71,310 | 15,60,206 | 17,05,874 | 19,50,400 |
| Gross Profit | 9,39,370 | 10,24,943 | 11,38,131 | 12,40,261 |
| Margin (%) | 36.0 | 39.6 | 40.0 | 38.9 |
| Employee Cost | 3,21,868 | 3,10,210 | 3,15,052 | 3,25,417 |
| Other Expenses | 3,78,359 | 4,76,865 | 4,89,246 | 5,35,246 |
| EBITDA | 2,39,143 | 2,37,868 | 3,33,832 | 3,79,597 |
| YoY gr. (%) | (19.7) | (0.5) | 40.3 | 13.7 |
| Margin (%) | 9.2 | 9.2 | 11.7 | 11.9 |
| Depreciation and Amortization | 2,56,139 | 2,06,944 | 2,14,246 | 2,38,415 |
| EBIT | (16,996) | 30,924 | 1,19,586 | 1,41,182 |
| Margin (%) | (0.7) | 1.2 | 4.2 | 4.4 |
| Net Interest | 72,433 | 63,147 | 59,511 | 62,353 |
| Other Income | 12,344 | 70,813 | 66,527 | 60,813 |
| Profit Before Tax | (1,05,800) | 38,589 | 1,26,603 | 1,39,642 |
| Margin (%) | (4.1) | 1.5 | 4.5 | 4.4 |
| Total Tax | 3,953 | 1,929 | 10,128 | 11,171 |
| Effective tax rate (%) | (3.7) | 5.0 | 8.0 | 8.0 |
| Profit after tax | (1,09,752) | 36,660 | 1,16,474 | 1,28,471 |
| Minority interest | 956 | 1,288 | 1,398 | 1,520 |
| Share Profit from Associate | (10,000) | 1,243 | 1,341 | 21 |
| Adjusted PAT | (90,921) | 36,615 | 1,16,417 | 1,26,972 |
| YoY gr. (%) | 515.0 | (140.3) | 218.0 | 9.1 |
| Margin (%) | (3.5) | 1.4 | 4.1 | 4.0 |
| Extra Ord. Income / (Exp) | (29,787) | - | - | - |
| Reported PAT | (1,20,709) | 36,615 | 1,16,417 | 1,26,972 |
| YoY gr. (%) | (58.1) | (130.3) | 218.0 | 9.1 |
| Margin (%) | (4.6) | 1.4 | 4.1 | 4.0 |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | (1,20,709) | 36,615 | 1,16,417 | 1,26,972 |
| Equity Shares O/s (m) | 3,598 | 3,598 | 3,598 | 3,598 |
| EPS (Rs) | (25.3) | 10.2 | 32.4 | 35.3 |

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|---------------------------------------|------------------|------------------|------------------|------------------|
| Non-Current Assets | | | | |
| Gross Block | 26,31,413 | 31,09,026 | 34,80,417 | 38,57,401 |
| Tangibles | 26,31,413 | 31,09,026 | 34,80,417 | 38,57,401 |
| Intangibles | - | - | - | - |
| Acc: Dep / Amortization | 13,68,113 | 15,34,473 | 17,05,712 | 18,98,516 |
| Tangibles | 13,68,113 | 15,34,473 | 17,05,712 | 18,98,516 |
| Intangibles | - | - | - | - |
| Net fixed assets | 12,63,301 | 15,74,553 | 17,74,705 | 19,58,884 |
| Tangibles | 12,63,301 | 15,74,553 | 17,74,705 | 19,58,884 |
| Intangibles | - | - | - | - |
| Capital Work In Progress | 3,56,223 | 2,50,000 | 2,50,000 | 2,50,000 |
| Goodwill | 7,771 | 7,771 | 7,771 | 7,771 |
| Non-Current Investments | 51,345 | 52,588 | 53,929 | 53,950 |
| Net Deferred tax assets | 35,160 | 35,160 | 35,160 | 35,160 |
| Other Non-Current Assets | - | - | - | - |
| Current Assets | | | | |
| Investments | 1,11,740 | - | - | - |
| Inventories | 3,74,569 | 2,90,387 | 3,19,464 | 3,58,403 |
| Trade receivables | 1,11,727 | 1,41,652 | 1,55,836 | 1,74,831 |
| Cash & Bank Balance | 3,37,270 | 2,30,519 | 2,65,455 | 3,60,112 |
| Other Current Assets | 12,949 | 17,949 | 22,949 | 27,949 |
| Total Assets | 31,66,634 | 31,45,158 | 34,69,848 | 38,51,640 |
| Equity | | | | |
| Equity Share Capital | 7,195 | 7,195 | 7,195 | 7,195 |
| Other Equity | 6,23,590 | 6,60,205 | 7,76,622 | 9,03,594 |
| Total Network | 6,30,785 | 6,67,400 | 7,83,817 | 9,10,789 |
| Non-Current Liabilities | | | | |
| Long Term borrowings | 10,56,553 | 11,36,553 | 12,06,553 | 12,76,553 |
| Provisions | - | - | - | - |
| Other non current liabilities | - | - | - | - |
| Current Liabilities | | | | |
| ST Debt / Current of LT Debt | - | - | - | - |
| Trade payables | 6,36,269 | 5,66,608 | 6,23,344 | 6,99,323 |
| Other current liabilities | 8,70,052 | 8,00,334 | 8,80,473 | 9,87,794 |
| Total Equity & Liabilities | 31,66,634 | 31,45,158 | 34,69,848 | 38,51,640 |

Source: Company Data, PL Research

Cash Flow (Rs m)

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| PBT | (1,19,752) | 36,615 | 1,16,417 | 1,26,972 |
| Add. Depreciation | 2,14,254 | 1,66,361 | 1,71,238 | 1,92,805 |
| Add. Interest | 11,913 | 70,813 | 66,527 | 60,813 |
| Less Financial Other Income | 12,344 | 70,813 | 66,527 | 60,813 |
| Add. Other | 1,27,101 | 1,288 | 1,398 | 1,520 |
| Op. profit before WC changes | 2,33,516 | 2,75,076 | 3,55,581 | 3,82,110 |
| Net Changes-WC | 50,663 | (1,30,121) | 48,614 | 80,366 |
| Direct tax | (17,849) | (1,929) | (10,128) | (11,171) |
| Net cash from Op. activities | 2,66,329 | 1,43,026 | 3,94,067 | 4,51,304 |
| Capital expenditures | (2,95,306) | (3,71,390) | (3,71,390) | (3,76,984) |
| Interest / Dividend Income | - | - | - | - |
| Others | (46,397) | 1,10,497 | (1,341) | (21) |
| Net Cash from Inv. activities | (3,41,702) | (2,60,893) | (3,72,731) | (3,77,005) |
| Issue of share cap. / premium | 38,888 | - | - | - |
| Debt changes | 82,529 | 80,000 | 70,000 | 70,000 |
| Dividend paid | (568) | - | - | - |
| Interest paid | (86,953) | (63,147) | (59,511) | (62,353) |
| Others | - | - | - | - |
| Net cash from Fin. activities | 33,896 | 16,853 | 10,489 | 7,647 |
| Net change in cash | (41,477) | (1,01,015) | 31,824 | 81,946 |
| Free Cash Flow | (28,976) | (2,28,364) | 22,676 | 74,320 |

Source: Company Data, PL Research

Quarterly Financials (Rs m)

| Y/e Mar | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Net Revenue | 6,54,320 | 7,16,761 | 6,24,930 | 3,19,831 |
| YoY gr. (%) | (9.1) | (6.8) | (27.7) | (48.0) |
| Raw Material Expenses | 4,01,275 | 4,64,184 | 4,08,096 | 1,99,212 |
| Gross Profit | 2,53,044 | 2,52,577 | 2,16,833 | 1,20,618 |
| Margin (%) | 38.7 | 35.2 | 34.7 | 37.7 |
| EBITDA | 71,605 | 71,965 | 23,733 | 6,356 |
| YoY gr. (%) | 8.1 | 20.8 | (70.4) | (78.8) |
| Margin (%) | 10.9 | 10.0 | 3.8 | 2.0 |
| Depreciation / Depletion | 52,996 | 51,993 | 58,149 | 55,994 |
| EBIT | 18,609 | 19,972 | (34,415) | (49,638) |
| Margin (%) | 2.8 | 2.8 | (5.5) | (15.5) |
| Net Interest | 18,354 | 17,436 | 19,528 | 18,768 |
| Other Income | 5,566 | 10,973 | (11,180) | 6,537 |
| Profit before Tax | 6,212 | 13,499 | (93,130) | (61,837) |
| Margin (%) | 0.9 | 1.9 | (14.9) | (19.3) |
| Total Tax | 4,455 | (6,046) | 3,583 | 22,005 |
| Effective tax rate (%) | 71.7 | (44.8) | (3.8) | (35.6) |
| Profit after Tax | 1,758 | 19,545 | (96,713) | (83,842) |
| Minority interest | 289 | 176 | 305 | 60 |
| Share Profit from Associates | (3,635) | (1,986) | (1,925) | (598) |
| Adjusted PAT | (2,557) | 17,394 | (70,936) | (84,532) |
| YoY gr. (%) | (50.7) | 70.3 | (418.9) | 135.5 |
| Margin (%) | (0.4) | 2.4 | (11.4) | (26.4) |
| Extra Ord. Income / (Exp) | 391 | (11) | (28,007) | 32 |
| Reported PAT | (2,166) | 17,383 | (98,943) | (84,500) |
| YoY gr. (%) | (80.2) | (106.4) | (985.4) | 128.5 |
| Margin (%) | (0.3) | 2.4 | (15.8) | (26.4) |
| Other Comprehensive Income | - | - | - | - |
| Total Comprehensive Income | (2,166) | 17,383 | (98,943) | (84,500) |
| Avg. Shares O/s (m) | 3,598 | 3,598 | 3,598 | 3,598 |
| EPS (Rs) | (0.7) | 4.8 | (19.7) | (23.5) |

Source: Company Data, PL Research

Key Financial Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|----------------------------|--------|--------|-------|-------|
| Per Share(Rs) | | | | |
| EPS | (25.3) | 10.2 | 32.4 | 35.3 |
| CEPS | 45.9 | 67.7 | 91.9 | 101.6 |
| BVPS | 175.3 | 185.5 | 217.9 | 253.2 |
| FCF | (8.1) | (63.5) | 6.3 | 20.7 |
| DPS | - | - | - | - |
| Return Ratio(%) | | | | |
| RoCE | (1.1) | 1.8 | 6.3 | 6.8 |
| ROIC | (1.5) | 1.9 | 6.7 | 7.5 |
| RoE | (14.8) | 5.6 | 16.0 | 15.0 |
| Balance Sheet | | | | |
| Net Debt : Equity (x) | 1.0 | 1.4 | 1.2 | 1.0 |
| Net Working Capital (Days) | (21) | (19) | (19) | (19) |
| Valuation(x) | | | | |
| PER | (4.1) | 10.3 | 3.2 | 3.0 |
| P/B | 0.6 | 0.6 | 0.5 | 0.4 |
| P/CEPS | 2.3 | 1.5 | 1.1 | 1.0 |
| EV/EBITDA | 4.1 | 5.4 | 3.9 | 3.4 |
| EV/Sales | 0.4 | 0.5 | 0.5 | 0.4 |
| Dividend Yield (%) | - | - | - | - |

Source: Company Data, PL Research

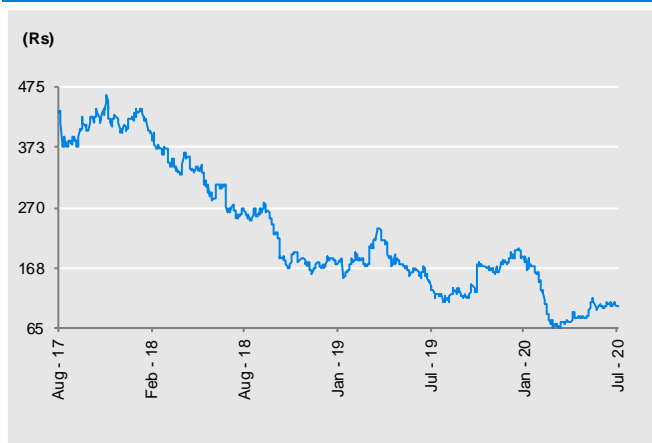
Key Operating Metrics

| Y/e Mar | FY20 | FY21E | FY22E | FY23E |
|------------------------|----------|----------|----------|----------|
| JLR volume (units) | 4,75,952 | 4,25,294 | 4,56,876 | 5,03,395 |
| TTMT CV volume (units) | 3,40,700 | 2,81,151 | 3,18,075 | 3,69,712 |
| TTMT PV volume (units) | 1,32,677 | 1,14,333 | 1,42,672 | 1,56,939 |

Source: Company Data, PL Research

Price Chart

Recommendation History



| No. | Date | Rating | TP (Rs.) | Share Price (Rs.) |
|-----|-----------|--------|----------|-------------------|
| 1 | 11-Jul-20 | Hold | 100 | 108 |
| 2 | 16-Jun-20 | Hold | 87 | 101 |
| 3 | 09-Apr-20 | Hold | 84 | 75 |
| 4 | 30-Jan-20 | Hold | 185 | 186 |
| 5 | 03-Jan-20 | Hold | 177 | 191 |
| 6 | 25-Oct-19 | Hold | 138 | 127 |
| 7 | 03-Oct-19 | Hold | 139 | 122 |

Analyst Coverage Universe

| Sr. No. | Company Name | Rating | TP (Rs) | Share Price (Rs) |
|---------|------------------------|------------|---------|------------------|
| 1 | Ashok Leyland | Accumulate | 59 | 51 |
| 2 | Bajaj Auto | Hold | 2,713 | 2,985 |
| 3 | Bharat Forge | Hold | 347 | 355 |
| 4 | CEAT | Accumulate | 951 | 845 |
| 5 | Eicher Motors | BUY | 20,852 | 19,465 |
| 6 | Exide Industries | Accumulate | 177 | 155 |
| 7 | Hero Motocorp | Accumulate | 2,855 | 2,681 |
| 8 | Mahindra & Mahindra | Hold | 531 | 545 |
| 9 | Maruti Suzuki | BUY | 6,858 | 6,192 |
| 10 | Motherson Sumi Systems | BUY | 116 | 96 |
| 11 | Tata Motors | Hold | 100 | 108 |
| 12 | TVS Motors | Sell | 365 | 402 |

PL's Recommendation Nomenclature (Absolute Performance)

| | |
|--------------------------|-----------------------------------|
| Buy | : > 15% |
| Accumulate | : 5% to 15% |
| Hold | : +5% to -5% |
| Reduce | : -5% to -15% |
| Sell | : < -15% |
| Not Rated (NR) | : No specific call on the stock |
| Under Review (UR) | : Rating likely to change shortly |

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