

Long term growth outlook remains intact

Dixon witnessed strong revenue, PAT growth of 47%, 33%, respectively, in FY21 despite loss of sales in Q1. The strong growth came on the back of customer additions in consumer electronics and mobile & EMS segments in FY21. The company has outlined a capex of ₹ 200 crore in FY22 for a brownfield expansion in TVs, washing machines, mobile phones and to start a new manufacturing unit for direct cool refrigerators. Dixon has also applied for PLI schemes in electronics/technology products, telecom products and LED lights & AC component manufacturing. The approval for all applications are expected within H2FY22. Entry into new product categories and customer additions into existing product categories (especially in washing machines, LED lights & mobile phones) would help drive revenue at a CAGR of 63% in FY21-23E. The company's balance sheet remains strong with stringent working capital policy (with cash conversion cycle of seven days) with RoE, RoCE at ~22%, 24% in FY21, respectively.

Strong revenue growth led by TV, mobile business

In Q4FY21, consolidated revenue growth at ~146% YoY to ₹ 2110 crore was led by 381% and ~200% revenue growth in mobile & EMS and consumer electronics (LED TV) segment, respectively. Revenue growth in security systems, home appliances and lighting divisions was higher at 100%, 63% and 50% YoY, respectively, largely on a favourable base and new customer additions. In the mobile division, the company has started supplying smart phones to Motorola and Nokia and is in talks with major US based telecom player for the supply of 5G phones. We believe new customer addition and entry into new product categories in mobile & EMS would help in 7x growth in revenue in FY21-23E.

EBITDA margin guidance of 4.2%-4.5% for FY22

EBITDA margin in Q4FY21 declined 273 bps YoY to 3.8%. This was largely due to lower operating leverage in the mobile & EMS segments, delay in passing on of higher raw material prices and one-time Esop expense (amounting to ₹ 8 crore). The company has taken price hikes in Q1FY22 to offset higher input prices. Dixon has further guided FY22E EBITDA margin range of 4.2-4.5% (lower than FY20 EBITDA margin of 5.1%) on the back of a sharp rise in revenues of mobile & EMS and consumer electronics segments, which are characterised by relatively low margin.

Valuation & Outlook

We tweak our revenue, PAT estimate downward by 6%, ~13%, respectively, for FY22E considering the impact of lockdown in Q1FY22. However, a strong balance sheet, increased backward integration and increasing share of Dixon in domestic electronic manufacturing are expected to result in strong PAT CAGR of 87% in FY21-23E. We reiterate our **BUY** recommendation on the stock with a revised target price of ₹ 4635 (earlier ₹ 4270).

Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22E	FY23E	(CAGR 21-23E)
Net sales	2984.5	4400.1	6448.2	11162.6	17223.1	63.4
EBITDA	134.9	223.1	286.5	494.7	817.9	69.0
EBITDA Margin(%)	4.5	5.1	4.4	4.4	4.7	
Net Profit	63.3	120.5	159.7	320.7	560.6	87.4
EPS (₹)	11.2	20.6	27.3	54.8	95.8	
P/E(x)	357.2	194.2	146.5	72.9	41.7	
RoE (%)	16.7	22.3	21.7	35.0	40.8	
RoCE (%)	22.4	26.3	23.5	35.8	46.4	

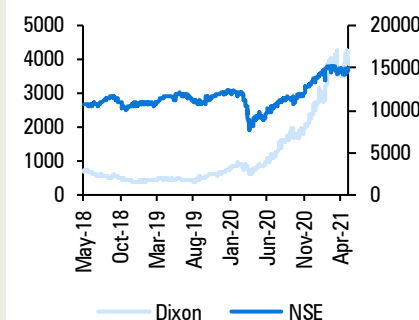
Source: Company, ICICI Direct Research

Dixon

Particulars

Particular	Amount
Market Cap (₹ Crore)	23,396.3
Total Debt (FY21) (₹ Crore)	151.3
Cash & Inv (FY21) (₹ Crore)	68.8
EV (₹ Crore)	23,478.8
52 week H/L	4588/ 914
Equity capital (₹ Crore)	11.6
Face value (₹)	2.0

Price Performance



Key risk to our call

- Delay/less volume offtake by key clients in mobile segment
- Strong competition from global and domestic EMS player restrict margin movement

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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	2109.7	857.4	146.1	2182.8	-3.3	Favourable base and strong growth across all business segments drives topline in Q4FY21
Other Income	1.0	0.0	NM	0.1	600	
Raw Material Exp	1896.0	722.2	162.5	1974.0	-4.0	Sharp rise in input prices and delay in passing of the same resulted in ~564 bps decline in gross margin
Employee cost	43.7	30.8	41.9	37.7	16.1	
Other Expenditure	90.2	48.5	85.8	70.6	27.7	Various cost optimisation measures result in savings in employee and other costs
Total Expenditure	2029.9	801.5	153.3	2082.3	-2.5	
EBITDA	79.8	55.9	42.8	100.5	-20.6	
EBITDA Margin (%)	3.8	6.5	-273 bps	4.6	-82 bps	Sharp decline in gross margins partially offset by savings in employee and other costs
Depreciation	12.3	10.9	12.6	11.3	9.2	
Interest	7.1	7.7	-7.2	7.7	-7.5	
PBT	61.4	37.3	64.7	81.7	-24.9	
Total Tax	17.1	9.7	76.8	20.1	-14.8	
PAT	44.3	27.6	60.5	61.6	-28.1	PAT growth is largely tracking strong sales growth in Q4FY20

Key Metrics*

Consumer Electronics	1,178.6	393.0	199.9	1,359.8	-13.3	Strong revenue growth in TV segment by 211% led by volume growth of 200%. AC PCB segment also grew 94% YoY in Q4
Lighting Products	381.7	254.8	49.8	348.6	9.5	Customer additions and strong demand from existing customers help drive segment revenue growth
Home appliances	146.5	90.0	62.7	115.2	27.2	Favourable base and strong consumer demand in Q4 drive segment performance
Mobile & EMS	289.9	60.3	380.7	299.2	-3.1	Low base and starting of manufacturing of mobile phones under PLI drove topline growth in Q4FY21
Security Systems	109.2	54.6	99.8	55.5	96.6	Strong order book amid increased demand of security systems drove overall sales in Q4
Reverse Logistics	3.8	4.7	-18.3	4.5	-14.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comments
	Old	Actual	% Chg	Old	New	% Chg	
Revenue	11,843.8	11,162.6	(5.8)	16,539.2	17,223.1	4.1	We tweak our estimates downward for FY22E considering lockdown impact in Q1FY22
EBITDA	554.1	494.7	(10.7)	814.5	817.9	0.4	
EBITDA Margin (%)	4.7	4.4	-25bps	4.9	4.7	-18bps	We slightly tweak our margin estimates downward considering product mix and higher input prices
PAT	367.6	320.7	(12.8)	549.5	560.6	2.0	
EPS (₹)	62.8	54.8	(12.8)	93.9	95.8	2.0	

Source: Company, ICICI Direct Research;

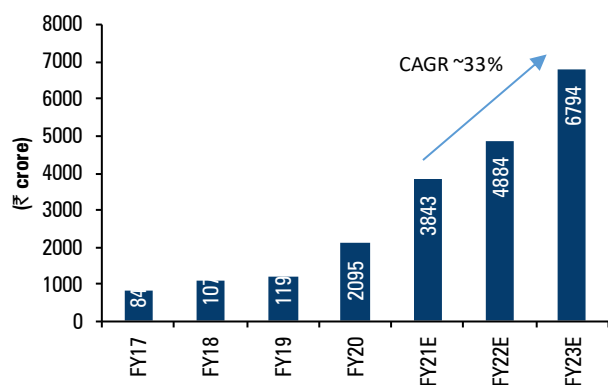
Exhibit 3: Assumptions

	Current (%)					Previous		Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Consumer Elect	11.2	75.5	83.4	27.1	39.1	27.0	15.4	Capacity expansion, entry into new product category to drive segment revenue growth
Lighting Produc	18.8	24.0	-3.2	67.9	92.0	52.9	44.0	Strong future growth considering export opportunities
Home appliance	49.6	5.9	8.8	47.6	47.3	51.5	19.5	Entry into fully automatic and new customer addition to drive revenue growth, going forward
Mobile & EMS	-47.0	51.3	56.4	315.5	58.2	348.5	64.7	Entry into new product category, customer additions and export opportunities to drive future revenue growth of mobile & EMS segments
Security Syster	NM	93.1	0.5	31.0	39.9	57.6	16.8	Strong order pipeline in security system to drive revenue
Reverse Logisti	-58.9	-48.4	-14.3	11.1	5.0	28.5	5.0	

Source: Company, ICICI Direct Research

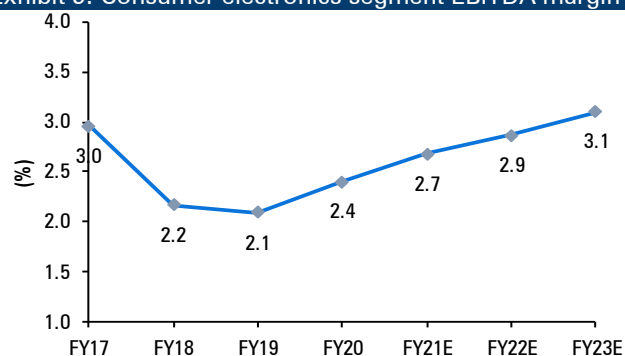
Financial story in charts

Exhibit 4: Consumer electronics segment revenue growth



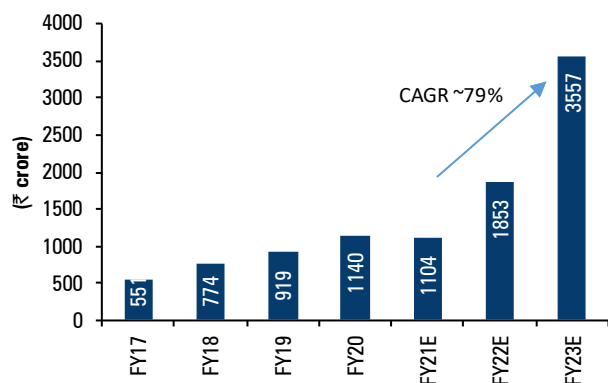
Source: Company, ICICI Direct Research

Exhibit 5: Consumer electronics segment EBITDA margin



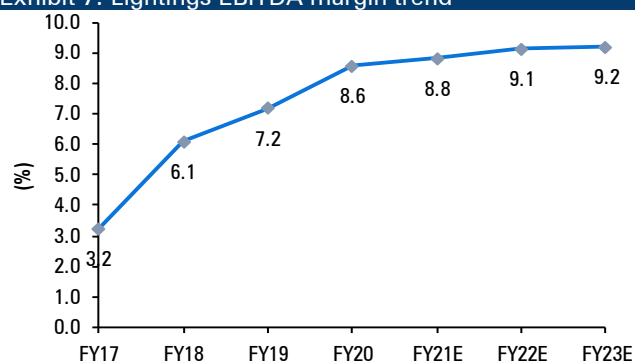
Source: Company, ICICI Direct Research

Exhibit 6: Lighting segment revenue growth trend



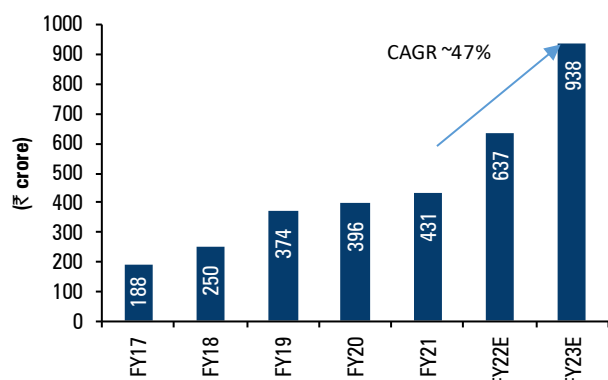
Source: Company, ICICI Direct Research

Exhibit 7: Lightings EBITDA margin trend



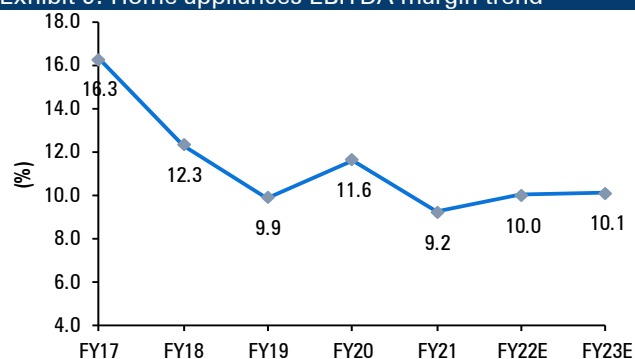
Source: Company, ICICI Direct Research

Exhibit 8: Home appliances segment revenue trend



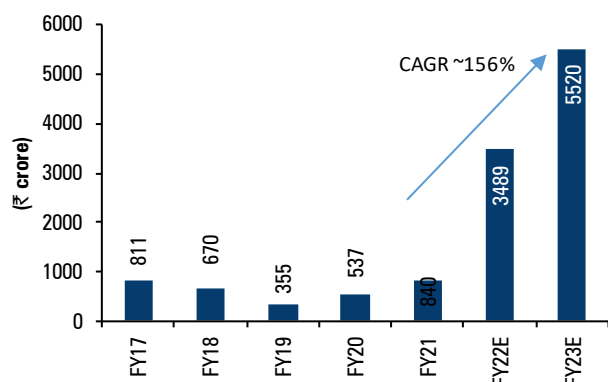
Source: Company, ICICI Direct Research

Exhibit 9: Home appliances EBITDA margin trend



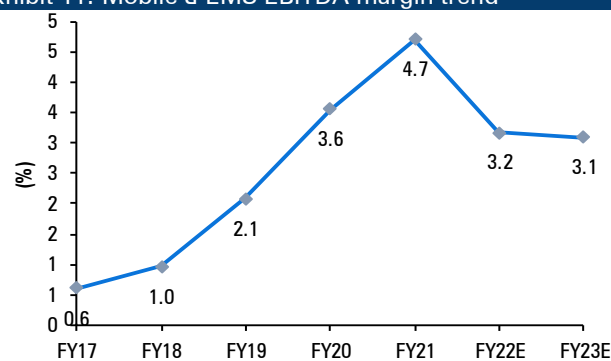
Source: Company, ICICI Direct Research

Exhibit 10: Mobile & EMS segment revenue trend



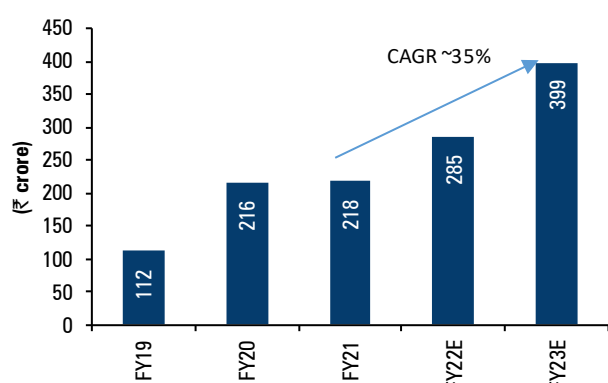
Source: Company, ICICI Direct Research

Exhibit 11: Mobile & EMS EBITDA margin trend



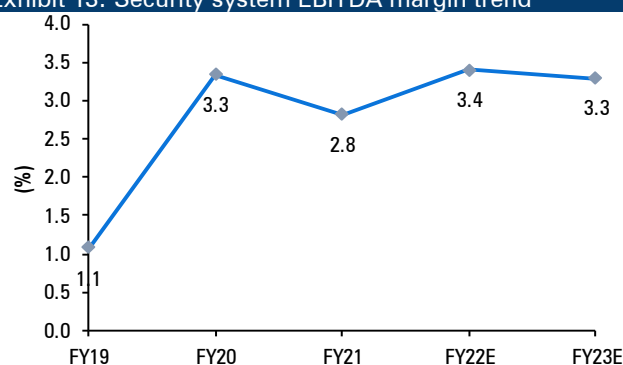
Source: Company, ICICI Direct Research

Exhibit 12: Security systems segment revenue trend



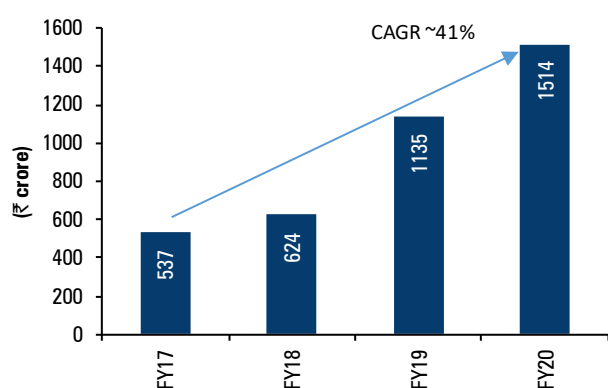
Source: Company, ICICI Direct Research

Exhibit 13: Security system EBITDA margin trend



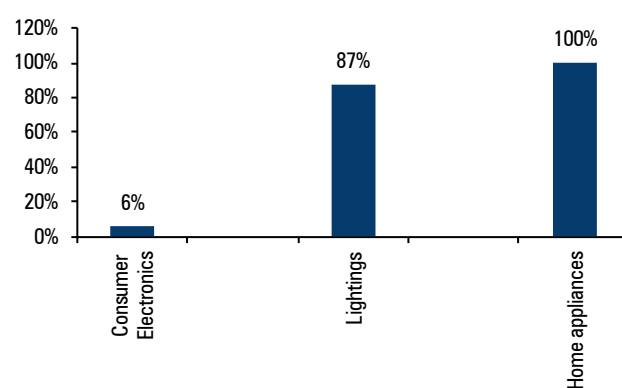
Source: Company, ICICI Direct Research

Exhibit 14: Strong growth in ODM revenue



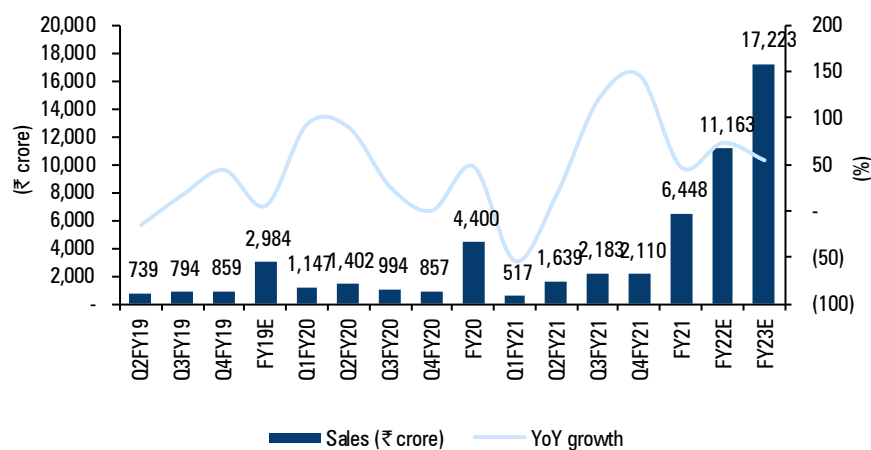
Source: Company, ICICI Direct Research

Exhibit 15: ODM share of business



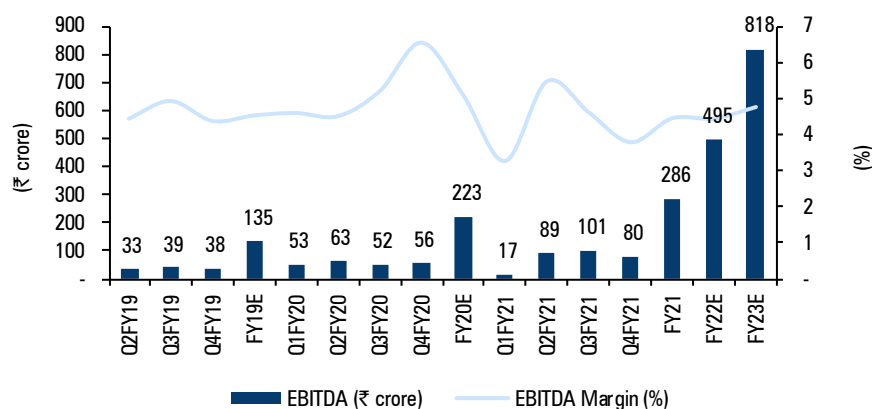
Source: Company, ICICI Direct Research

Exhibit 16: Revenue growth trend



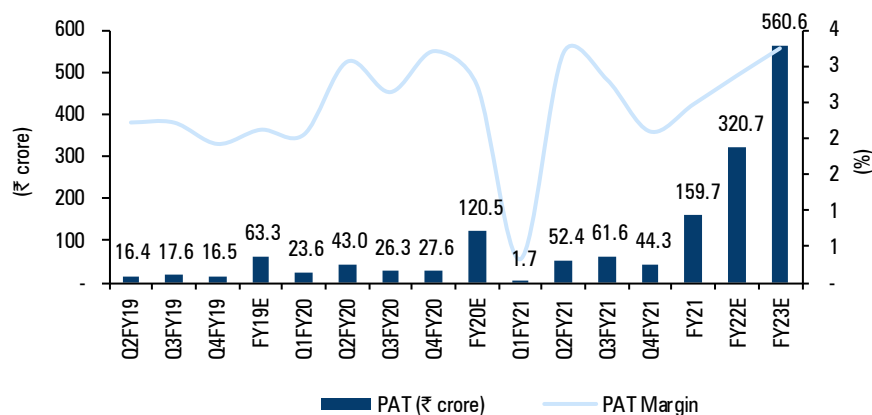
Source: Company, ICICI Direct Research

Exhibit 17: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 18: PAT growth trend



Source: Company, ICICI Direct Research

Conference call highlights

Consumer Electronics

- TV manufacturing capacity to increase from 4.4 million (mn) units to 5.5 mn units by Q2FY22. The company has also started manufacturing different size TVs ranging from 70", 75" and 85" for clients
- With expanded capacity, Dixon can serve 35-37% of total domestic requirements of LED TV
- AC PCB capacity will also be increased from 1.8 mn to 2.8 in the next few years
- The company will be adding new product i.e. LED monitor in this category. It has tied up with two global brands for the supply of LED monitors
- Dixon will start with initial 1 mn capacity of LED monitor. Expected volume in the first year will be 0.5 mn units. The volume offtake is likely to increase significantly from subsequent years. Production of LED monitors will commence from Q3FY22
- Margins of LED monitors will be in line with LED TV

LED Lightings

- LED segment EBIT margin declined by 190 bps YoY to 8.1% due to delay in passing on of higher raw material prices. However, it has passed on most of the cost increases in later part of Q4FY22
- Dixon is the sourcing partner of almost all large brands in India
- LED bulbs capacity 300 mn (45-50% of Indian LED requirements). The company has expanded the capacity of battens to 3 mn/month (vs. industry requirement of 7 mn/month). Down-lighters capacity has been expanded from 600,000/month to 1.5 mn/month (vs. Indian requirement of 3 mn/month). Expanded manufacturing capacity of decorative land from 0.5 mn to 5 mn/month
- The company will launch street lightings and commercial lighting solutions from Q2FY22E
- Working on export opportunities (technical feasibility is going on with customer) and final approval is expected in Q2FY22
- The company will participate in the government's LED PLI scheme particularly on the mechanical side of LED lighting solutions

Home Appliances

- Significant pressure in commodity pressure in washing machines in Q4FY22. However, the company has passed on the same by taking price hikes in Q1FY22
- Dixon has largest product SKU (~140) in the semi-automatic machines across all ranging from 6-12 kg. Expanding capacity from 1.2 to 1.5 mn/per annum by August-September 2021
- Fully automatic washing machines plants are ready with initial manufacturing capacity of 6 lakh/annum. The company has 40 models in fully automatic range of washing machines ranging from 6-10 kg capacity. Bosch will be the primary customer for this capacity. The company is also in talks with other brands to increase its customer base

Mobile & EMS

- Commercial production of mobile phones has started for Motorola and Nokia under the PLI schemes. Confident of achieving ceiling level in the current financial year under the mobile PLI scheme
- First Indian mobile phone manufacture with manufacturing capacity of global standard 5G mobile phones
- Targeting capacity expansion to 15 mn in next two years
- Set top box and medical device revenue in Q4FY21 ₹ 46 crore and ₹ 96 lakhs, respectively
- In the set top boxes, Dixon has a healthy order book of 0.5 mn/month. However, the company was able to manufacture 0.35 mn/month of set top boxes due to shortage of components from Q2FY22. Major customers under the set top box category is Jio, Den Network and Hathway, Dish TV and Citi Cable. The revenue opportunity in the set top box category is ~₹ 450 crore in the next two years
- For medical equipment, the company expects 40-50 units/months with annual revenue opportunity of ₹ 12-13 crore
- Increased overheads due to new factory set up for mobile facility under PLI scheme

Security surveillance business

- Strong growth in revenue & operating profit by 100% & 66% YoY, respectively, in Q4FY21
- Dixon has a strong order book in the segments to be executed in the next two years

New categories, going ahead

- The company has finalised technological partner to start manufacturing direct cool refrigerators with initial capacity of 0.6 mn/annum (expandable to 1 mn/annum). Indian requirement of DC refrigerators of 10 mn/annum. The commercial manufacturing of refrigerator would start from Q3FY23. Dixon has planned a capex of ₹ 100 crore for the said product category
- Laptops/tablet/IT hardware: The company has applied for PLI to start manufacturing laptops/tablet/IT hardware. The approval for the said application is expected in the next one to two months. Dixon has signed an MoU with a large global player to start manufacturing laptops
- Telecom and networking product: Dixon has formed a JV with Bharti Enterprises (on which 74% stake owned by Dixon) to start manufacturing IOT devices/Modem/Routers under the government's PLI scheme. The JV has submitted the PLI application. The company will start manufacturing of IOT devices/modem/routers from Q3FY22
- AC PCB assemblies: Dixon is also planning to apply for PLI application under the AC components. The company has presence in the AC PCB assembly with annual turnover of ₹ 120 crore. The company is in discussions with its Japanese partner to form a JV and supply PCB to domestic as well as global markets. The addressable market size of AC PCB is ₹ 450-500 crore for Dixon

Others

- Impact of Esop and higher input cost in EBITDA margins in Q4
- Confident on maintaining EBITDA margin on ODM business through calibrated price hike, value engineering (operating leverage) and improved mix
- Second wave has significantly impacted in rural area. Q1FY22 performance will be impacted due to lockdown
- Healthy balance sheet and strong client base would help Dixon in faster recovery in the challenging period of pandemic
- The company has incurred capex of ₹ 167 crore in FY21. For FY22, Dixon has planned capex of ₹ 200 crore plus for FY22 considering new manufacturing capacities under the PLI schemes

Financial summary

Exhibit 7: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Revenue	4,400.1	6,448.2	11,162.6	17,223.1
Growth (%)	47.4	46.5	73.1	54.3
Raw material expens	3,913.3	5,753.5	10,109.3	15,500.8
Employee expenses	118.0	137.1	193.0	296.9
Other expenses	198.9	254.8	365.6	607.5
Total Operating Exp	4,177.1	6,161.7	10,667.9	16,405.2
EBITDA	223.1	286.5	494.7	817.9
Growth (%)	65.4	28.4	72.7	65.3
Depreciation	36.5	43.7	53.6	60.3
Interest	35.0	27.4	16.1	14.1
Other Income	5.2	1.6	3.3	5.2
PBT	156.8	216.9	428.3	748.7
Total Tax	36.3	57.2	107.6	188.1
PAT	120.5	159.7	320.7	560.6

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	120.5	159.7	320.7	560.6
Add: Depreciation	36.5	43.7	53.6	60.3
(Inc)/dec in Current Assets	27.3	-880.9	-968.8	-1766.7
Inc/(dec) in CL and Provisions	7.0	839.5	866.3	1452.1
Others	35.0	27.4	16.1	14.1
CF from operating activities	226.3	189.4	287.9	320.4
(Inc)/dec in Investments	7.6	-95.3	40.0	50.0
(Inc)/dec in Fixed Assets	-192.3	-242.8	-150.0	-200.0
Others	67.4	39.9	5.0	5.0
CF from investing activities	-117.2	-298.1	-105.0	-145.0
Issue/(Buy back) of Equity	0.2	0.1	0.0	0.0
Inc/(dec) in loan funds	-53.3	68.5	20.0	-60.0
Dividend paid & dividend tax	-8.3	-35.1	-70.3	-105.4
Others	15.7	43.8	-86.3	-14.1
CF from financing activities	-45.6	77.3	-136.6	-179.5
Net Cash flow	63.4	-31.3	46.3	-4.1
Opening Cash	36.7	100.1	68.8	115.1
Closing Cash	100.1	68.8	115.1	111.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	11.6	11.7	11.7	11.7
Reserve and Surplus	529.8	725.6	905.8	1,361.1
Total Shareholders funds	541.3	737.3	917.6	1,372.8
Total Debt	82.8	151.3	171.3	111.3
Other non current liabilities	104.4	148.9	153.9	158.9
Total Liabilities	728.5	1,037.5	1,242.7	1,643.0
Assets				
Gross Block	488.4	731.2	881.2	1,081.2
Less: Acc Depreciation	82.5	126.2	179.8	240.1
Total Fixed Assets	415.5	614.5	710.9	850.6
Investments	0.0	95.3	55.3	5.3
Inventory	497.8	743.3	1,284.5	2,123.4
Debtors	515.1	1,089.1	1,376.2	2,123.4
Loans and Advances	0.0	2.5	2.5	2.5
Other CA	133.1	192.1	332.6	513.2
Cash	100.1	68.8	115.1	111.0
Total Current Assets	1,246.2	2,095.8	3,110.9	4,873.5
Creditors	939.1	1,709.7	2,507.8	3,869.3
Provisions	10.9	14.4	21.1	32.5
Other CL	18.7	84.1	145.6	224.7
Total Current Liabilities	968.7	1,808.2	2,674.5	4,126.6
Net current assets	277.5	287.6	436.4	747.0
Other non current assets	35.6	40.1	40.1	40.1
Total Assets	728.5	1,037.5	1,242.7	1,643.0

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	20.6	27.3	54.8	95.8
Cash EPS	26.8	34.7	63.9	106.0
BV	92.5	125.9	156.7	234.5
DPS	1.4	6.0	12.0	18.0
Operating Ratios (%)				
EBITDA Margin	5.1	4.4	4.4	4.7
PAT Margin	2.7	2.5	2.9	3.3
Asset Turnover	9.0	8.8	12.7	15.9
Inventory Days	41.3	42.1	42.0	45.0
Debtor Days	42.7	61.6	45.0	45.0
Creditor Days	77.9	96.8	82.0	82.0
Return Ratios (%)				
RoE	22.3	21.7	35.0	40.8
RoCE	26.3	23.5	35.8	46.4
RoIC	31.0	26.7	37.8	44.5
Valuation Ratios (x)				
P/E	193.9	146.3	72.8	41.7
EV / EBITDA	104.6	81.5	47.2	28.6
EV / Net Sales	5.3	3.6	2.1	1.4
Market Cap / Sales	5.3	3.6	2.1	1.4
Price to Book Value	43.2	31.7	25.5	17.0
Solvency Ratios				
Debt / Equity	0.2	0.2	0.2	0.1
Current Ratio	1.2	1.2	1.2	1.2
Quick Ratio	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,774	2,970	Buy	2,66,027	33.4	36.7	45.4	83.0	75.5	61.1	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnik (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,730	3,130	Buy	8,585	24.7	45.7	88.2	110.5	59.7	30.9	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2
Bajaj Electricals (BAJELE)	1,080	1,280	Buy	12,279	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	752	810	Hold	73,034	7.6	9.7	12.4	98.9	77.3	60.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	398	480	Buy	24,955	9.8	9.2	11.9	40.5	43.5	33.5	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTE)	3,996	4,635	Buy	23,396	27.3	54.8	95.8	146.5	72.9	41.7	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYLMIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	79	75	Buy	1,787	4.4	9.6	-	17.9	8.2		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	221	265	Buy	9,465	4.2	6.1	7.1	52.2	36.4	31.2	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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