

Record profits amid robust Cayman, domestic show

Narayana posted strong QoQ, YoY growth, better than our estimates across all fronts. Revenues grew 12.8% YoY to ₹ 838 crore with India sales growing 9.5% YoY to ₹ 700 crore. Revenues from Cayman operations grew 30.6% YoY to US\$18.5 million due to lower base and strong ARPOB traction. On the EBITDA front, margins expanded 399 bps to 16.9% amid lower employee & other expenditure. Subsequently, EBITDA grew 47.7% YoY to ₹ 141 crore. Adjusted PAT for the quarter was at ₹ 68 crore, nearly 3x Q4FY20.

Blended model of affordable + high-quality services

The company has a legacy model based on affordability over the years. Due to strict control over costs and capital, Narayana was making reasonable profit. However, as it looks to scale up in other regions, where the consideration for quality has more weight than affordability, the model is likely to be modified from "affordable" to a mix of affordable + quality at premium. Cases in point are the recent acquisition of Gurugram Hospital and buying out of partner in the Cayman Islands hospital internationally where acquisition costs were optically higher.

"Asset right model" to improve return ratios

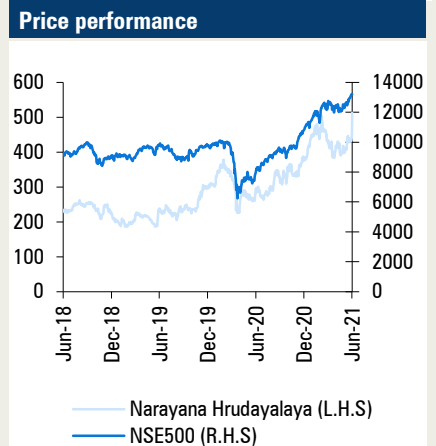
Under this model, Narayana engages with partners who invest in land, building while it takes care of medical equipment, hospital management on a revenue share basis. However, the management has maintained a flexible approach in this regard. Thus, it also owns some hospitals where the opportunity is right. Due to this focus on b/s and likely improvement in average realisation per operating bed (ARPOB) by optimising case mix, we expect an improvement in RoCE from 11% to 15.0% in FY20-23E.

Valuations & Outlook

The company posted a very strong operational performance in Q4 backed by uptick in elective surgeries. As of Q4FY21, Narayana's operations reached ~112% of pre-Covid (February 2020) levels. In view of significant near-term headwinds due the second Covid wave, the management remains committed to reduce costs, increase efficiency and calculated capex (New Cayman and pending India brownfield). As the pandemic situation eases out, new hospitals (SRCC, Gurugram, Dharamshila) are expected to witness a reduction in losses with ramp up in occupancies. Notwithstanding Covid related impact, the improvement in numbers in the last few quarters is also on the back of judicious case mix identification (more focus on oncology, transplants and non-invasive procedures). We continue to believe in the long term prospects of the company on the back of asset-right model and affordability philosophy. We maintain **BUY** recommendation and arrive at an SOTP target price of ₹ 585 (earlier ₹ 545) by valuing matured hospitals and Cayman Islands at 16x FY23E EV/EBITDA, new hospitals at 1.5x and other business at 1x FY23E EV/sales.



Particulars	
Particular	Amount
Market Capitalisation	₹ 10290 crore
Debt (FY21)	₹ 822 crore
Cash (FY21)	₹ 132 crore
EV	₹ 10979 crore
52 week H/L (₹)	566/251
Equity capital	₹ 204.4 crore
Face value	₹ 10



- #### Key risks to our call
- Delay in lifting of lockdown restrictions in India
 - Longer than expected time taken to breakeven at newer hospitals

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22E	FY23E	CAGR FY21-23E %
Revenues	3127.8	2582.3	3337.1	3758.2	20.6
EBITDA	422.9	182.1	498.0	608.6	82.8
EBITDA Margins (%)	13.5	7.1	14.9	16.2	
Adjusted PAT	129.8	-14.3	173.5	252.7	NA
EPS (₹)	6.4	-0.7	8.5	12.4	
PE (x)	79.3	NA	59.3	40.7	
EV to EBITDA (x)	26.1	59.7	22.4	18.3	
Price to book (x)	9.1	9.2	8.1	6.8	
RoE (%)	11.4	-1.3	13.6	16.8	
RoCE (%)	11.0	1.2	12.3	15.0	

Source: ICICI Direct Research; Company

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
Revenue	837.8	742.9	750.4	12.8%	11.6%	Sharp QoQ growth amid substantial recovery in mature hospitals
Raw Material Expenses	206.9	178.8	198.8	15.7%	4.1%	
Employee Expenses	169.6	168.0	156.7	1.0%	8.2%	
Other Expenditure	319.8	300.5	289.9	6.5%	10.3%	
Operating Profit (EBITDA)	141.4	95.7	104.9	47.7	34.8	
EBITDA (%)	16.9%	12.9%	14.0%	399 bps	290 bps	Sharp QoQ growth amid substantial margins recovery in mature hospitals
Interest	18.2	20.8	18.6	-12.3%	-1.8%	
Depreciation	44.5	55.1	46.5	-19.3%	-4.3%	
Other Income	8.5	7.0	4.6	21.3%	86.7%	
PBT before EO & Forex	87.2	26.9	44.5	224.1	96.2	
Forex & EO	0.0	10.9	0.0	0.0	0.0	
PBT after Exceptional lter	87.2	16.0	44.5	443.7	96.2	
Tax	17.2	3.6	0.8	378.9	2,113.9	
PAT before MI	70.0	12.4	43.7	462.5	60.3	
MI	0.0	0.0	0.0	14.7	50.0	
Adjusted Net Profit	68.0	22.8	40.8	197.9	66.6	Sequential improvement mainly in sync with operational performance

Key Metrics

Owned/Operated Hospita	800.1	715.3	725.5	11.8%	10.3%
Heart Centres	21.0	19.2	24.4	9.5%	-13.8%

Source: ICICI Direct Research

Exhibit 2: Change in Estimates

(\$ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	3,316.7	3,337.1	0.6	3,638.6	3,758.2	3.3	
EBITDA	460.3	498.0	8.2	542.4	608.6	12.2	
EBITDA Margin (%)	13.9	14.9	104 bps	14.9	16.2	129 bps	Increased Cayman margins amid better than expected margins in FY21
PAT	151.6	173.5	14.5	213.9	252.7	18.2	Changed mainly in sync with operational performance
EPS (\$)	7.4	8.5	14.5	10.5	12.4	18.2	

Source: ICICI Direct Research

Exhibit 3: Change in Estimates

(\$ crore)	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Owned/Operated Hospital:	2,991.0	2,478.2	3,202.1	3,609.6	3,170.0	3,477.2	Changed mainly due to sharp decline in occupancy owing to Covid-19 and delay in expansion
Heart Centres	108.1	78.9	135.1	148.6	146.7	161.4	Changed mainly due to sharp decline in occupancy owing to Covid-19
Other businesses	26.6	21.6	0.0	0.0	0.0	0.0	

Source: ICICI Direct Research

Conference Call Highlights

- As of Q4FY21, net debt was ₹ 485.7 crore with net debt to equity ratio of 0.43 (US\$39.1 million is foreign currency denominated)
- Operations reached ~112% of pre-Covid (February 2020) levels
- Flagship facilities grew 10% YoY despite subdued international patient inflow
- Current margins are unlikely to sustain while Covid-induced cost reduction may not hold in future
- Deferred capex from CY20 to CY21 being planned through borrowing at attractive rates
- ALOS still elevated despite lower Covid patients due to robust screening procedures
- Annual capex at ₹ 125-150 crore
 - FY22 – capex to be likely above ₹ 250 crore amid deferred capex
- Cayman
 - Cayman Island almost 70% vaccinated; focus remains on how fast tourism picks up
 - Recorded US\$68.6 million in sales in FY21 with an EBITDA of US\$26.2 million (post Ind-AS) and US\$24.5 million (pre Ind-AS)
 - Oncology block to be ready in ~18 months
 - (a) segment to drive growth
 - (b) Post that if breakeven taken place within a year which is likely amid latent demand, growth could be in double digits
 - New Cayman facility to be commercialised within 24 months
 - Margins to trend down as restrictions come down and footfall of domestic patients' decline
 - Opening up new clinics at a capex of US\$0.5-1 million for day care procedures
- Covid related commentary
 - High end cardiac electives substantially impacted in April
 - Covid contribution in Q4 at 3% vs 14% in Q3FY21
 - (a) In March 2021 – 2%; April 2021 – 13%; May to be higher than April
 - A small subset of younger patient population witnessing significant post-Covid syndrome
 - April 2021 – down 7% vs March 2021; May 2021 – down 3% vs April 2021
 - (a) Historically April is generally down 3-4%
- Region-wise YoY growth during Q4FY21 was as follows: Bangalore: 8%, Southern Peripheral: 11%, Kolkata: 10%, Eastern Peripheral: 9%, Western: 19%, Delhi NCR: 11%
- Q4FY21 average revenue per operating bed (ARPOB) for India was ~₹ 110 lakh and US\$2.0 million for HCCI (Cayman)

- Domestic ARPOB to likely decline after sustaining for a quarter, but may be supported by higher ARPOB generating oncology segment
- Narayana is administering vaccines at cost
- Indian operations – Oncology the second largest revenue contributor (14% of sales) after Cardiac in India
- New hospitals breakeven pushed back by a year amid the pandemic, now likely in CY22

Exhibit 4: Trends in quarterly performance

(₹ Crore)	Q4FY18	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY (%)	QoQ (%)
Total Operating Income	646.8	711.3	732.1	765.2	777.4	822.3	785.2	742.9	393.5	600.7	750.4	837.8	12.8	11.6
Raw Material Expenses	161.2	169.6	175.9	185.6	190.3	191.5	184.8	178.8	110.5	161.6	198.8	206.9	15.7	4.1
% of revenue	24.9	23.9	24.0	24.3	24.5	23.3	23.5	24.1	28.1	26.9	26.5	24.7		
Gross Profit	485.6	541.6	556.2	579.6	587.0	630.8	600.4	564.2	283.0	439.1	551.5	630.8	11.8	14.4
Gross Profit Margin (%)	75.1	76.1	76.0	75.7	75.5	76.7	76.5	75.9	71.9	73.1	73.5	75.3	-63.7	179.7
Employee Expenses	142.2	155.5	158.0	159.6	165.7	176.0	171.7	168.0	152.9	147.6	156.7	169.6	1.0	8.2
% of revenue	22.0	21.9	21.6	20.9	21.3	21.4	21.9	22.6	38.9	24.6	20.9	20.2		
Other Manufacturing Expense	291.1	313.1	320.2	330.5	318.5	333.1	326.1	300.5	221.0	264.8	289.9	319.8	6.5	10.3
% of revenue	45.0	44.0	43.7	43.2	41.0	40.5	41.5	40.4	56.2	44.1	38.6	38.2		
Total Expenditure	594.5	638.3	654.1	675.7	674.6	700.6	682.5	647.2	484.5	574.0	645.4	696.4	7.6	7.9
% of revenue	91.9	89.7	89.4	88.3	86.8	85.2	86.9	87.1	123.1	95.5	86.0	83.1		
EBITDA	52.3	73.0	78.0	89.5	102.8	121.7	102.7	95.7	-91.0	26.8	104.9	141.4	47.7	34.8
EBITDA Margins (%)	8.1	10.3	10.6	11.7	13.2	14.8	13.1	12.9	-23.1	4.5	14.0	16.9	399.1	289.6
Depreciation	26.1	34.0	34.8	35.9	41.4	42.9	46.4	55.1	46.4	46.2	46.5	44.5	-19.3	-4.3
Interest	20.5	18.3	18.4	17.5	22.2	21.7	20.6	20.8	19.7	19.4	18.6	18.2	-12.3	-1.8
Other Income	4.2	3.1	3.3	7.2	4.8	6.4	5.5	7.0	4.7	10.4	4.6	8.5	21.3	86.7
PBT before forex & EO	10.0	23.8	28.1	43.4	44.0	63.4	41.2	26.9	-152.4	-28.5	44.5	87.2	224.1	96.2
Forex & EO	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	10.9	0.0	0.0	0.0	0.0	0.0	0.0
PBT	11.7	23.8	28.1	43.4	44.0	63.4	41.2	16.0	-152.4	-28.5	44.5	87.2	443.7	96.2
Total Tax	-0.6	8.2	13.0	9.9	13.0	16.8	8.8	3.6	-33.7	-26.1	0.8	17.2	378.9	2,113.9
Tax rate (%)	-5.2	34.6	46.3	22.8	29.5	26.5	21.4	22.4	22.1	NA	1.8	19.8		
PAT after MI	9.8	13.6	12.7	37.2	30.3	45.3	31.4	12.0	-119.7	-3.4	40.8	68.0	468.7	66.6
Adjusted PAT	8.1	13.6	12.7	37.2	30.3	45.3	31.4	22.8	-119.7	-3.4	40.8	68.0	197.9	66.6
EPS (₹)	0.4	0.7	0.6	1.8	1.5	2.2	1.5	1.1	-5.9	-0.2	2.0	3.3	197.9	66.6

Source: ICICI Direct Research

Company Background

Narayana Hrudayalaya (NHL) was incorporated by renowned cardiac surgeon Dr Devi Prasad Shetty in 2000. It was started as a predominant cardiac care hospitals group initially. Gradually, it also diversified into other specialties although cardiac still remains a mainstream specialty followed by renal (kidney care). NHL network comprises 21 hospitals (including one managed hospitals), five heart centres, 19 primary care facilities (including clinics and information centres) and a multi-speciality hospital in Cayman Islands by entering into agreement with the Government of Cayman Islands. The company has 5992 operational beds and the potential to reach a capacity of up to 6725 beds. Region-wise, southern (mainly Karnataka) and eastern (mainly Kolkata) regions together, account for 67% of the operating revenues.

Cluster wise bifurcation

Karnataka cluster – Comprises six hospitals including three in Bengaluru (ex-Whitefield) and a hospital each in Mysore, Bellary and Shimoga totalling 2206 operational beds. The company also manages four heart centres totalling 256 operating beds

Eastern cluster - Comprises eight hospitals including hospitals in the greater Kolkata area encompassing Howrah, Barasat and the Eastern Metropolitan Bypass, a multispecialty hospital in Jamshedpur, Jharkhand and a superspeciality hospital in Guwahati, Assam totalling 1735 operational beds.

Western cluster - Comprises four hospitals with 960 operational beds - Jaipur (Rajasthan), Palanpur (Gujarat), Ahmedabad (Gujarat), paediatric hospital in Mumbai (Maharashtra).

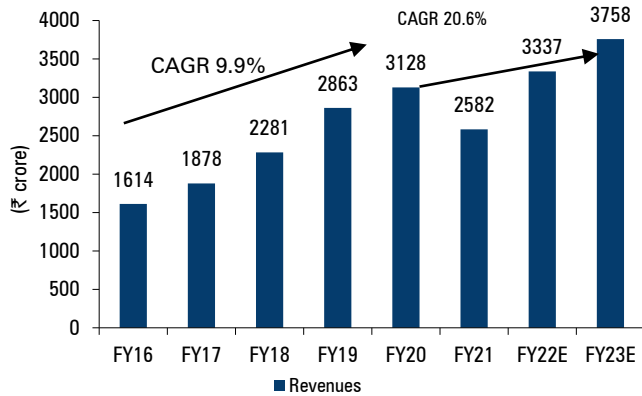
Northern clusters – Comprises three hospitals with 653 operational beds - Raipur (Chhattisgarh), Jammu and Delhi. The company acquired a multispecialty hospital has commissioned in Q4FY18.

Health City Cayman Islands (HCCI) - NHL had set up a multi-speciality hospital in Cayman Islands by entering into an agreement with the Government of Cayman Islands on April 7, 2010. Health City Cayman Islands (HCCI) is a joint venture between NHL and Ascension Health Ventures LLC, a US based trust. This 110 bedded hospital was commissioned in April 2014 and earned JCI, US accreditation in May, 2015 (JCI is the international arm of The Joint Commission, the leading health care accreditor in the US). NHL had initially entered into the JV with 28.6% stake in the hospital and then bought back the rest of the 71.4% stake from Ascension Health for a cash consideration of US\$32 million in 2017 (implied EV of US\$70 million for 105 beds). Now, it is the step down subsidiary of Narayana Health. HCCI primarily targets North American patients (Cayman Islands is 430 miles south of Miami, near Caribbean islands) and provides high-quality, affordable health care. For FY21, HCCI revenues was at US\$68.6 million with EBITDA at US\$26.2 million (EBITDA margin of 38.2%).

Cayman Expansion: In order to increase reach and cater to more patients, NH is now setting up a 50 bedded facility closer to the city centre at Camana Bay, Grand Cayman with an investment of US\$100 million funded equally by HCCI internal accruals and borrowing. It will include an advanced cancer centre, which will offer comprehensive oncology treatment including bone marrow transplant, CAR-T cell therapy, medical oncology, haemato oncology, surgical oncology and radiation oncology. It will also offer robotic surgery, a neonatal intensive care unit, emergency and critical care, as well as a fully equipped radiology department. The radiotherapy and associated block is expected to get commercialised within 12-18 months while the remaining portion will take an additional six to 12 months.

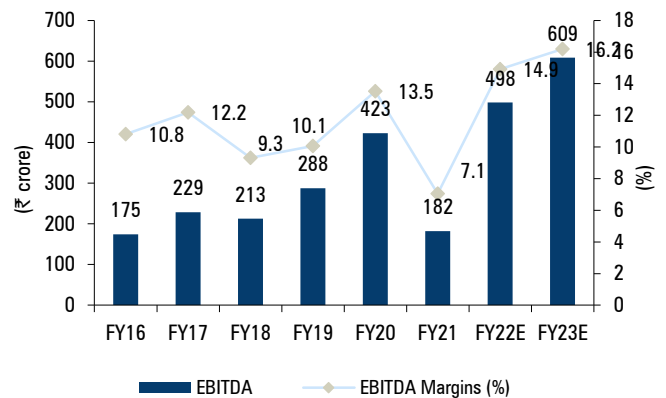
As of FY21, it has 16965 employees, which included 3577 doctors.

Exhibit 5: Revenues to grow at CAGR of 21% over FY21-23E



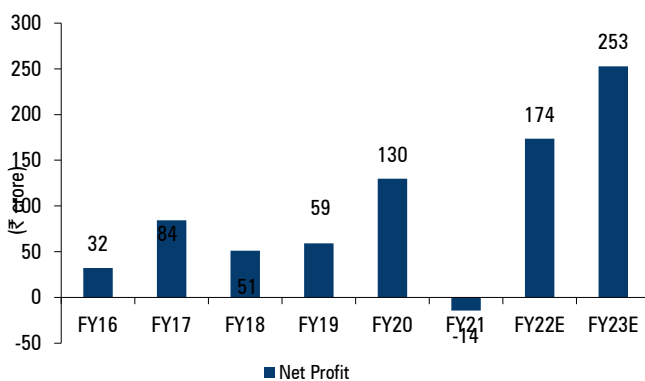
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA & EBITDA margins trend



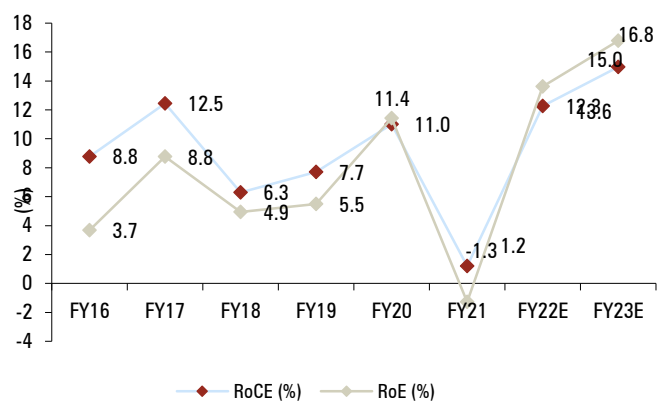
Source: ICICI Direct Research, Company

Exhibit 7: Net profit to grow at ~25% CAGR over FY20-23E



Source: ICICI Direct Research, Company

Exhibit 8: RoE & RoCE trend



Source: ICICI Direct Research, Company

Exhibit 9: Valuation

Particulars	Valuation Matrix	Multiple (x)	Enterprise value (₹ cr)
Hospital (Matured)	EV/EBITDA	16.0	9920.1
Cayman	EV/EBITDA	16.0	2268.4
Hospital (New)	EV/Sales	1.5	579.4
Other Business	EV/Sales	1.0	148.6
Net Debt FY23E (₹ cr)			931.5
EV (₹ cr)			11985.0
No of shares (cr)			20.4
Per Share Value (₹)			585.0

Source: Company

Exhibit 10: Summary

	Revenues (₹ crore)	Growth (%)	Adj. EPS (₹)	Growth (%)	P/E (x)	EV/EBITDA (X)	RoE (%)	RoCE (%)
FY20	3127.8	37.1%	6.4	153.7%	79.3	26.1	11.4	11.0
FY21	2582.3	-17.4%	-0.7	-111.0%	NA	59.7	-1.3	1.2
FY22E	3337.1	29.2%	8.5		59.3	22.4	13.6	12.3
FY23E	3758.2	12.6%	12.4	45.7%	40.7	18.3	16.8	15.0

Source: ICICI Direct Research, Company

Exhibit 11: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	63.9	63.9	63.9	63.9	63.9
Others	36.2	36.2	36.2	36.2	36.2

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 12: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Revenues	3,127.8	2,582.3	3,337.1	3,758.2
Growth (%)	9.3	-17.4	29.2	12.6
Raw Material Expenses	745.3	677.9	883.3	996.7
Employee Expenses	681.4	626.8	810.0	912.2
Other Manufacturing Expenses	1,278.2	1,095.6	1,145.8	1,240.8
Total Operating Expenditure	2,704.9	2,400.2	2,839.1	3,149.7
EBITDA	422.9	182.1	498.0	608.6
Growth (%)	46.9	-56.9	173.5	22.2
Interest	85.3	76.0	81.7	81.7
Depreciation	185.8	183.5	193.1	202.2
Other Income	23.8	28.2	10.0	15.0
PBT before Exceptional Items	175.6	-49.2	233.2	339.7
Less: Forex & Exceptional Items	10.9	0.0	0.0	0.0
PBT	164.7	-49.2	233.2	339.7
Total Tax	42.3	-41.8	59.7	87.0
PAT before MI	122.5	-7.5	173.5	252.7
Minority Interest	0.1	0.0	0.0	0.0
PAT	118.9	-14.3	173.5	252.7
Adjusted PAT	129.8	-14.3	173.5	252.7
Growth (%)	118.8	-111.0		45.7
EPS	5.8	-0.7	8.5	12.4
EPS (Adjusted)	6.4	-0.7	8.5	12.4

Source: ICICI Direct Research

Exhibit 14: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	204.4	204.4	204.4	204.4
Reserve and Surplus	931.6	915.9	1,069.0	1,301.3
Total Shareholders fund	1,136.0	1,120.3	1,273.3	1,505.6
Total Debt	952.2	821.7	1,021.7	1,021.7
Deferred Tax Liability	54.4	13.0	13.7	14.4
Minority Interest	0.5	0.5	0.6	0.6
Other liabilities	280.4	259.5	272.4	286.1
Source of Funds	2,423.5	2,215.0	2,581.7	2,828.4
Gross Block - Fixed Assets	2,877.0	2,929.6	3,179.6	3,329.6
Accumulated Depreciation	843.3	1,026.8	1,219.9	1,422.1
Net Block	2,033.7	1,902.8	1,959.7	1,907.5
Capital WIP	11.8	19.9	319.9	589.9
Net Fixed Assets	2,045.5	1,922.7	2,279.6	2,497.4
Goodwill on Consolidation	58.1	58.1	58.1	58.1
Investments	86.3	120.3	120.3	120.3
Inventory	60.2	47.9	97.0	109.2
Cash	114.8	132.1	35.9	90.2
Debtors	262.2	278.5	310.6	315.1
Loans & Advances & Other CA	79.8	96.7	101.5	106.6
Total Current Assets	517.1	555.2	545.0	621.2
Creditors	361.6	410.3	388.8	434.5
Provisions & Other CL	106.0	144.7	152.0	159.6
Total Current Liabilities	467.6	555.0	540.8	594.1
Net Current Assets	49.5	0.1	4.3	27.1
LT L&A, Other Assets	182.0	111.9	117.5	123.4
Deferred Tax Assets	2.0	1.8	1.9	2.0
Application of Funds	2,423.5	2,215.0	2,581.8	2,828.4

Source: ICICI Direct Research

Exhibit 13: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	118.9	-14.3	173.5	252.7
Add: Depreciation & Amortization	185.8	183.5	193.1	202.2
Net Increase in Current Assets	24.3	-20.8	-86.0	-21.8
Net Increase in Current Liabilities	45.4	87.4	-14.3	53.3
Others	85.3	76.0	81.7	81.7
CF from operating activities	459.7	311.8	348.1	568.1
(Inc)/dec in Fixed Assets	-394.1	-60.7	-550.0	-420.0
(Inc)/dec in Investments	-68.9	-34.0	0.0	0.0
Others	-12.4	6.6	8.0	8.4
CF from investing activities	-475.4	-88.1	-542.0	-411.6
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Debt	138.7	-130.5	200.0	0.0
Dividend & Dividend Tax	-23.8	0.0	-20.4	-20.4
Others	-85.3	-76.0	-81.7	-81.7
CF from financing activities	29.7	-206.5	97.8	-102.2
Net Cash flow	14.1	17.3	-96.1	54.3
Opening Cash	100.7	114.8	132.1	35.9
Closing Cash	114.8	132.1	35.9	90.2
Free Cash Flow	65.6	251.1	-201.9	148.1

Source: ICICI Direct Research

Exhibit 15: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	6.4	-0.7	8.5	12.4
Cash EPS	14.3	8.3	16.9	21.3
BV	55.6	54.8	62.3	73.7
DPS	1.2	0.0	1.0	1.0
Cash Per Share	41.3	50.2	59.7	69.6
Operating Ratios (%)				
EBITDA margins	13.5	7.1	14.9	16.2
Net Profit margins	4.1	-0.6	5.2	6.7
Cash Conversion cycle	-4.6	-11.9	2.1	-1.0
Asset Turnover	1.1	0.9	1.2	1.3
Return Ratios (%)				
RoE	11.4	-1.3	13.6	16.8
RoCE	11.0	1.2	12.3	15.0
RoIC	10.9	-0.1	14.5	20.1
Valuation Ratios (x)				
P/E	79.3	NA	59.3	40.7
EV / EBITDA	26.1	59.7	22.4	18.3
EV / Revenues	3.5	4.2	3.3	3.0
Market Cap / Revenues	3.3	4.0	3.1	2.7
Price to Book Value	9.1	9.2	8.1	6.8
Solvency Ratios				
Net Debt / Equity	0.8	0.6	0.7	0.6
Net Debt / EBITDA	1.8	3.2	1.8	1.3
Current Ratio	0.9	0.8	0.9	0.9

Source: ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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