

# Godrej Consumer Products

Refer to important disclosures at the end of this report

## Double-digit volume growth ambition on category development

<b>CMP</b>	<b>Target Price</b>
<b>Rs 899</b> as of (December 20, 2021)	<b>Rs 920 (■)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>HOLD (■)</b>	<b>2.3 %</b>

At its analyst meet, GCPL MD & CEO Sudhir Sitapati presented a refreshed strategy. Management aims to achieve double-digit volume growth on the back of category development and penetration gains. GCPL will focus more on core, with fewer but bigger innovations, more global collaboration and higher investments for category development. However, it highlighted a cautious outlook in the short term due to unprecedented inflation and lower volume growth. Management's steps appear to be in the right direction, but given near-term pressure on earnings, we see limited upside potential. Maintain Hold with a TP of Rs920 (40x Dec-23 EPS).

### Key takeaways

- Management highlighted recovery in business performance after a few rough years, with improved volume growth in India and recovery in Africa and Latam in FY21 and H1FY22,.
- Apart from highlighting GCPL's strengths, including innovation culture, cost-saving mindset and obsession with product quality, Sudhir pointed out several weaknesses, including low category development, too much innovation with less focus on core, lack of global collaboration and lack of a frugal cost structure with low investments in automation.
- Core categories, excluding soaps, have a strong penetration opportunity. Four key products in HI and hair colors, which account for 40% of its revenues and 60% of the profit pool, have less than 20% penetration.
- It will focus on some key changes, including 1) few transformative consumer tailwinds, 2) working more collaboratively across regions, 3) investing more in automation and media, and 4) most importantly, developing better category development capability. Category development will be the biggest driver for double-digit volume growth.
- Management highlighted its operating philosophy, which will focus on 1) Less is more; fewer but bigger innovations; 2) Consumer first, business second – consumer investments delinked from short-term business volatility; 3) Think local, act global – set up a global category team for market development and brand building; 4) Tomorrow before today – will hold sales and senior management accountable for meeting forecast rather than rewarding ambitions; 5) Better from within, different from outside – elevate/expand the role of internal talent, and recruit to fill gaps.
- However, as per management, there are short-term factors that will affect GCPL, such as a weak macro environment in Indonesia and unprecedented cost inflation in fuel/palm/tin which may lead to low volume growth from grammage reduction and low upgradation.
- Management expects H2FY22 to see lower volume growth, higher price growth, high gross margin dilution and moderate EBITDA dilution. FY23 should see moderate volume growth and moderate EBITDA margin expansion with high media and distribution investments. Management believes GCPL is not the best in terms of overhead costs and can derive 150-200bps of savings.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(Page 7\)](#)

### Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	99,108	1,10,286	1,23,446	1,36,087	1,50,031
EBITDA	21,430	23,883	25,480	29,130	32,906
EBITDA Margin (%)	21.6	21.7	20.6	21.4	21.9
APAT	15,776	17,653	18,098	21,257	24,218
EPS (Rs)	13.8	16.0	17.7	20.8	23.7
EPS (% chg)	(4.8)	15.5	10.8	17.5	13.9
ROE (%)	20.8	20.4	18.3	19.5	20.0
P/E (x)	65.0	56.3	50.8	43.2	38.0
EV/EBITDA (x)	43.9	38.7	35.9	31.1	27.2
P/BV (x)	11.6	9.7	8.9	8.0	7.2

Source: Company, Emkay Research

### Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	Hold

### Emkay vs Consensus

EPS Estimates		
	FY22E	FY23E
Emkay	17.7	20.8
Consensus	18.6	21.7
Mean Consensus TP (12M)	Rs 1,096	

### Stock Details

Bloomberg Code	GCPL IN
Face Value (Rs)	1
Shares outstanding (mn)	1,023
52 Week H/L	1,139 / 644
M Cap (Rs bn/USD bn)	919 / 12.08
Daily Avg Volume (nos.)	12,08,597
Daily Avg Turnover (US\$ mn)	15.6

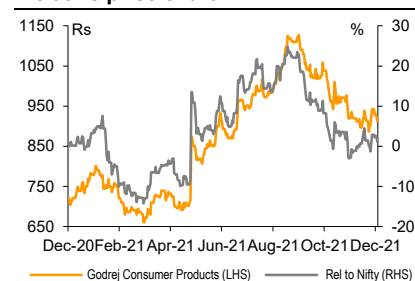
### Shareholding Pattern Sep '21

Promoters	63.2%
FII's	26.2%
DII's	4.6%
Public and Others	6.0%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(2)	(18)	(1)	25
<b>Rel. to Nifty</b>	3	(15)	(9)	1

### Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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# Story in Charts

## Exhibit 1: Recent improvement in performance and recovery in Africa/Latam

After a few rough years, business performance is better

	2011-15	2016-20	2021-H1 FY22		2016-20	FY21	H1 FY22
Volume growth	15%	5%	9%	GAUM growth	13%	8%	32%
Revenue growth	20%	5%	13%	Avg. EBITDA	14%	10%	11%
Avg. EBITDA	17%	20%	22%	Lat Am growth	(3%)	19%	11%
				Avg. EBITDA	13%	14%	17%

Volume growth is improving

Some of our old laggards are turning

Source: Company

## Exhibit 3: Ambition for double-digit UVG led by category penetration

At the heart of our success lies penetration led volume growth

### The Growth Plan

Driver	Contribution
Penetration gains on 50% of portfolio	50%
Moderate share gain on 50% of portfolio	15%
Consumption led market growth	25%
Disruptive innovation	10%
<b>Total</b>	<b>100%</b>



### Fuel for Growth

Save	Invest
Gross Margins	Media and Sampling
Discounts	Salaries
Overheads	Digital and Automation
Non Media ATL	Distribution
▲ 150-200 bps expansion	
Inventory	CAPEX

But a transformative business plan needs a philosophy that we believe in

Source: Company

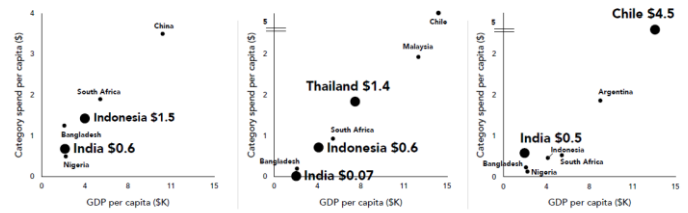
## Exhibit 5: GCPL categories have a huge penetration headroom

Category penetration	FY21
Air Fresheners (Indonesia)	28%
Household Insecticide Aerosols (Indonesia)	23%
Liquid Vapourisers (India)	28%
Hair Colour Crème (India)	13%

Source: Company

## Exhibit 2: Strong penetration opportunity vs. other countries

And categories with non-linear growth potential



1 Household Insecticides

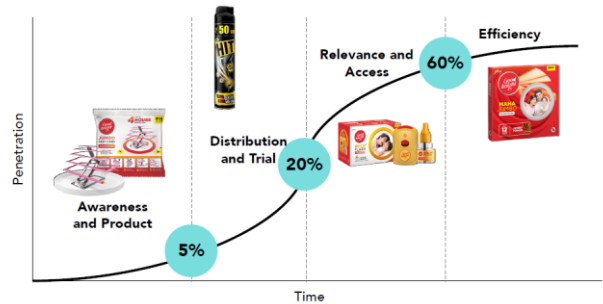
2 Air Care

3 Hair Colour

Source: Company

## Exhibit 4: Stages of category development for HI

What does category development for mosquitoes mean?



The first 3 phases of category development need very high Advertisement & Publicity, Sampling and Distribution investment

Source: Company

## Exhibit 6: GCPL's new operating philosophy

### An Operating Philosophy

1. Less is more; Much less is much more
2. Consumer first, Business second
3. Think local, Act global
4. Tomorrow before Today
5. Better from within, Different from outside

Source: Company

### Exhibit 7: Cautious near-term outlook amid unprecedented inflation

## 2 factors will affect our short term

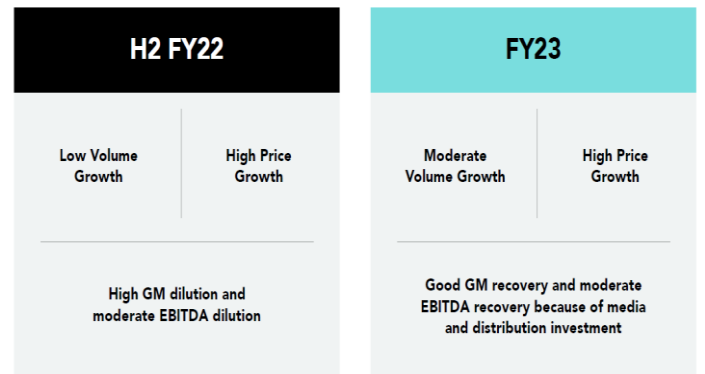
#### Unprecedented cost inflation

	Nov-20	Nov-21
Crude (\$/barrel)	40	80
Palm Oil (MYR/t)	1,500	3,500
Tin (000 \$/t)	18	36

Source: Company

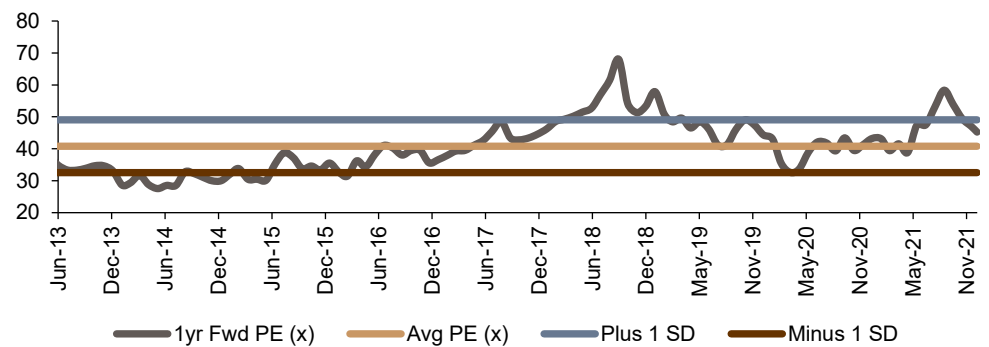
### Exhibit 8: Expects weak H2 with improvement in FY23

#### What this means for our business if costs are at current levels



Source: Company

### Exhibit 9: 1-year forward PE band



Source: Company, Emkay Research,

### Exhibit 10: Relative valuation

	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Asian Paints	3,244	3,111	Hold	2,800	29.6	42.3	53.5	109.6	76.7	60.6	69.3	50.6	40.5
Berger Paints	753	732	Hold	830	9.4	12.2	14.4	80.5	61.7	52.3	50.5	39.5	33.6
Britannia	3,536	852	Buy	4,050	66.0	80.5	92.9	53.6	43.9	38.1	38.3	32.1	28.2
Colgate	1,430	389	Buy	1,765	38.0	41.7	46.6	37.6	34.3	30.7	24.8	22.7	20.5
Dabur	565	998	Hold	600	10.4	12.0	13.7	54.1	47.2	41.1	42.1	36.5	31.8
Emami	543	241	Buy	600	16.2	18.2	20.5	33.5	29.8	26.5	24.8	22.0	19.4
<b>GCPL</b>	<b>899</b>	<b>919</b>	<b>Hold</b>	<b>920</b>	<b>17.7</b>	<b>20.8</b>	<b>23.7</b>	<b>50.8</b>	<b>43.2</b>	<b>38.0</b>	<b>35.9</b>	<b>31.1</b>	<b>27.2</b>
HUL	2,230	5,240	Hold	2,700	37.5	43.7	50.1	59.4	51.0	44.6	40.7	34.9	30.5
ITC	218	2,686	Buy	270	11.6	13.6	15.1	18.7	16.0	14.5	13.9	11.8	10.7
Marico	500	647	Buy	640	10.3	11.9	13.9	48.4	42.0	36.1	35.3	30.8	26.5
Nestle	19,080	1,840	Sell	16,500	242.0	286.3	335.0	78.8	66.6	57.0	54.0	46.1	39.7
Pidilite	2,391	1,215	Sell	2,200	26.5	32.9	38.1	90.3	72.6	62.8	59.6	48.2	41.6
Radico Khaitan	1,092	146	Buy	1,170	22.6	29.0	34.9	48.3	37.6	31.3	31.6	25.4	21.2
United Breweries	1,560	412	Buy	1,900	17.5	30.9	36.0	89.1	50.5	43.3	46.2	29.5	25.4
United Spirits	882	641	Buy	1,015	12.2	17.1	19.9	72.2	51.6	44.4	44.5	34.1	29.2

Source: Company, Emkay Research

**Key Financials (Consolidated)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>99,108</b>	<b>1,10,286</b>	<b>1,23,446</b>	<b>1,36,087</b>	<b>1,50,031</b>
<b>Expenditure</b>	<b>77,678</b>	<b>86,404</b>	<b>97,965</b>	<b>1,06,957</b>	<b>1,17,125</b>
<b>EBITDA</b>	<b>21,430</b>	<b>23,883</b>	<b>25,480</b>	<b>29,130</b>	<b>32,906</b>
Depreciation	1,973	2,039	2,041	2,147	2,270
<b>EBIT</b>	<b>19,458</b>	<b>21,844</b>	<b>23,439</b>	<b>26,983</b>	<b>30,636</b>
Other Income	1,123	671	671	771	910
Interest expenses	2,174	1,266	950	550	550
<b>PBT</b>	<b>18,406</b>	<b>21,248</b>	<b>23,160</b>	<b>27,205</b>	<b>30,996</b>
Tax	2,638	3,595	5,072	5,958	6,788
Extraordinary Items	(811)	(445)	0	0	0
Minority Int./Income from Assoc.	8	0	10	10	10
<b>Reported Net Income</b>	<b>14,966</b>	<b>17,208</b>	<b>18,098</b>	<b>21,257</b>	<b>24,218</b>
<b>Adjusted PAT</b>	<b>15,776</b>	<b>17,653</b>	<b>18,098</b>	<b>21,257</b>	<b>24,218</b>

**Balance Sheet**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	1,022	1,023	1,023	1,023	1,023
Reserves & surplus	77,961	93,367	1,02,263	1,13,296	1,27,290
<b>Net worth</b>	<b>78,984</b>	<b>94,389</b>	<b>1,03,285</b>	<b>1,14,318</b>	<b>1,28,312</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>35,184</b>	<b>17,683</b>	<b>12,683</b>	<b>7,683</b>	<b>2,683</b>
Net deferred tax liability	(5,960)	(6,538)	(7,284)	(8,105)	(9,007)
<b>Total Liabilities</b>	<b>1,08,207</b>	<b>1,05,534</b>	<b>1,08,685</b>	<b>1,13,897</b>	<b>1,21,988</b>
<b>Net block</b>	<b>91,795</b>	<b>88,136</b>	<b>88,095</b>	<b>88,748</b>	<b>89,278</b>
<b>Investment</b>	<b>6,720</b>	<b>6,791</b>	<b>6,791</b>	<b>6,791</b>	<b>6,791</b>
<b>Current Assets</b>	<b>43,275</b>	<b>39,865</b>	<b>51,406</b>	<b>59,870</b>	<b>71,737</b>
Cash & bank balance	7,702	6,722	10,256	14,510	21,735
Other Current Assets	6,345	5,638	7,695	8,480	9,344
<b>Current liabilities &amp; Provision</b>	<b>34,153</b>	<b>29,833</b>	<b>38,182</b>	<b>42,087</b>	<b>46,393</b>
<b>Net current assets</b>	<b>9,122</b>	<b>10,033</b>	<b>13,224</b>	<b>17,783</b>	<b>25,344</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>1,08,207</b>	<b>1,05,534</b>	<b>1,08,685</b>	<b>1,13,897</b>	<b>1,21,988</b>

**Cash Flow**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>PBT (Ex-Other income) (NI+Dep)</b>	<b>17,283</b>	<b>20,578</b>	<b>22,489</b>	<b>26,433</b>	<b>30,086</b>
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,221)	(2,468)	(404)	(1,125)	(1,239)
<b>Operating Cashflow</b>	<b>16,892</b>	<b>18,045</b>	<b>20,685</b>	<b>22,829</b>	<b>25,799</b>
Capital expenditure	(7,115)	1,616	(2,000)	(2,800)	(2,800)
<b>Free Cash Flow</b>	<b>9,777</b>	<b>19,661</b>	<b>18,685</b>	<b>20,029</b>	<b>22,999</b>
Investments	(1,560)	(71)	0	0	0
Other Investing Cash Flow	3,090	(2,765)	(671)	(771)	(910)
<b>Investing Cashflow</b>	<b>(4,462)</b>	<b>(550)</b>	<b>(2,000)</b>	<b>(2,800)</b>	<b>(2,800)</b>
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	1,363	(17,500)	(5,000)	(5,000)	(5,000)
Dividend paid (incl tax)	(9,859)	0	(9,202)	(10,224)	(10,224)
Other Financing Cash Flow	(3,005)	292	0	0	0
<b>Financing Cashflow</b>	<b>(13,675)</b>	<b>(18,475)</b>	<b>(15,152)</b>	<b>(15,774)</b>	<b>(15,774)</b>
<b>Net chg in cash</b>	<b>(1,246)</b>	<b>(979)</b>	<b>3,533</b>	<b>4,255</b>	<b>7,225</b>
Opening cash position	8,947	7,702	6,722	10,256	14,510
<b>Closing cash position</b>	<b>7,702</b>	<b>6,722</b>	<b>10,256</b>	<b>14,510</b>	<b>21,735</b>

Source: Company, Emkay Research

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**Key Ratios**

<b>Profitability (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EBITDA Margin	21.6	21.7	20.6	21.4	21.9
EBIT Margin	19.6	19.8	19.0	19.8	20.4
Effective Tax Rate	14.3	16.9	21.9	21.9	21.9
Net Margin	15.9	16.0	14.7	15.6	16.1
ROCE	19.7	21.1	22.5	24.9	26.7
ROE	20.8	20.4	18.3	19.5	20.0
RoIC	21.7	23.7	25.7	29.5	33.1

<b>Per Share Data (Rs)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
EPS	13.8	16.0	17.7	20.8	23.7
CEPS	17.4	19.3	19.7	22.9	25.9
BVPS	77.3	92.3	101.0	111.8	125.5
DPS	8.0	0.0	9.0	10.0	10.0

<b>Valuations (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
PER	65.0	56.3	50.8	43.2	38.0
P/CEPS	57.0	51.3	50.2	43.2	38.2
P/BV	11.6	9.7	8.9	8.0	7.2
EV / Sales	9.6	8.4	7.5	6.7	6.0
EV / EBITDA	43.9	38.7	35.9	31.1	27.2
Dividend Yield (%)	0.9	0.0	1.0	1.1	1.1

<b>Gearing Ratio (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Net Debt/ Equity	0.3	0.0	0.0	(0.1)	(0.2)
Net Debt/EBIDTA	1.0	0.2	(0.2)	(0.5)	(0.8)
Working Cap Cycle (days)	5.2	11.0	8.8	8.8	8.8

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
Revenue	(3.9)	11.3	11.9	10.2	10.2
EBITDA	1.2	11.4	6.7	14.3	13.0
EBIT	(0.1)	12.3	7.3	15.1	13.5
PAT	(36.1)	15.0	5.2	17.5	13.9

<b>Quarterly (Rs mn)</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>	<b>Q1FY22</b>	<b>Q2FY22</b>
Revenue	29,151	30,554	27,307	28,945	31,637
EBITDA	6,844	7,112	5,748	6,111	6,792
<b>EBITDA Margin (%)</b>	<b>23.5</b>	<b>23.3</b>	<b>21.0</b>	<b>21.1</b>	<b>21.5</b>
PAT	4,580	5,021	3,658	4,137	4,789
<b>EPS (Rs)</b>	<b>4.5</b>	<b>4.9</b>	<b>3.6</b>	<b>4.0</b>	<b>4.7</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>	<b>Sep-21</b>
Promoters	63.2	63.2	63.2	63.2	63.2
FII	26.8	26.8	26.6	27.0	26.2
DII	3.1	3.1	3.1	1.2	4.6
Public and Others	6.9	6.9	7.1	8.6	6.0

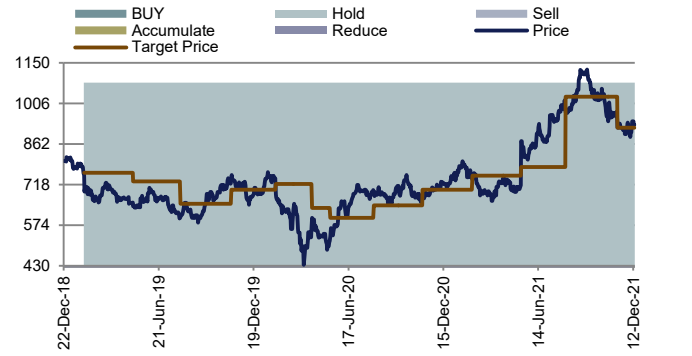
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Nov-21	920	920	12m	Hold	Ashit Desai
27-Sep-21	1,039	1,030	12m	Hold	Ashit Desai
05-Aug-21	976	1,030	12m	Hold	Ashit Desai
12-May-21	873	780	12m	Hold	Ashit Desai
08-Feb-21	735	750	12m	Hold	Ashit Desai
20-Dec-20	720	700	12m	Hold	Ashit Desai
05-Nov-20	669	700	12m	Hold	Ashit Desai
04-Aug-20	692	645	12m	Hold	Ashit Desai
13-May-20	534	600	12m	Hold	Ashit Desai
14-Apr-20	557	635	12m	Hold	Ashit Desai
08-Apr-20	600	635	12m	Hold	Ashit Desai
30-Jan-20	684	720	12m	Hold	Ashit Desai
25-Dec-19	691	700	12m	Hold	Ashit Desai
06-Nov-19	742	700	12m	Hold	Ashit Desai
20-Sep-19	685	650	12m	Hold	Ashit Desai
01-Aug-19	604	650	12m	Hold	Ashit Desai
03-May-19	641	730	12m	Hold	Ashit Desai
09-Apr-19	665	760	12m	Hold	Ashit Desai
29-Jan-19	751	760	12m	Hold	Ashit Desai

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – Consumer Goods & Retail



### Analyst: Ashit Desai

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#### Sector

Consumer Goods & Retail

#### Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 13 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
<b>Consumer Goods &amp; Retail</b>	<b>10.12</b>	<b>10.12</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>	
Asian Paints	1.48	0.73	-51%	-75	7.23	0
Berger Paints	0.19	0.00	-100%	-19	0.00	0
Britannia Industries	0.42	0.46	9%	4	4.55	0
Colgate-Palmolive	0.19	0.21	7%	1	2.03	0
Dabur India	0.33	0.35	6%	2	3.49	0
Emami	0.11	0.11	-5%	-1	1.05	0
Godrej Consumer Products	0.34	0.33	-4%	-1	3.27	0
Hindustan Unilever	2.02	1.50	-26%	-52	14.83	0
ITC	1.93	1.95	1%	2	19.30	0
Marico	0.26	0.29	9%	2	2.82	0
Nestle India	0.69	0.37	-47%	-32	3.62	0
Pidilite Industries	0.37	0.00	-100%	-37	0.00	0
Radico Khaitan	0.00	0.25	NA	25	2.47	0
United Breweries	0.11	0.48	346%	38	4.79	0
United Spirits	0.00	0.34	NA	34	3.36	0
Varun Beverages	0.13	0.22	73%	9	2.21	0
ABFRL	0.08	0.16	98%	8	1.59	0
Jubilant FoodWorks	0.28	0.25	-9%	-2	2.48	0
Page Industries	0.22	0.50	122%	27	4.91	0
Titan Company	0.96	1.10	14%	13	10.86	0
TCNS Clothing	0.00	0.25	NA	25	2.45	0
Westlife Development	0.00	0.27	NA	27	2.69	0
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>	<b>0</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	17-Dec-20	17-Jun-21	17-Sep-21	17-Nov-21	17-Dec-21
EAP - Consumer Goods & Retail	100.0	119.8	130.9	148.1	151.0	141.8
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.4	124.9	140.3	137.2	129.6

\*Performance measurement base date 1<sup>st</sup> April 2019

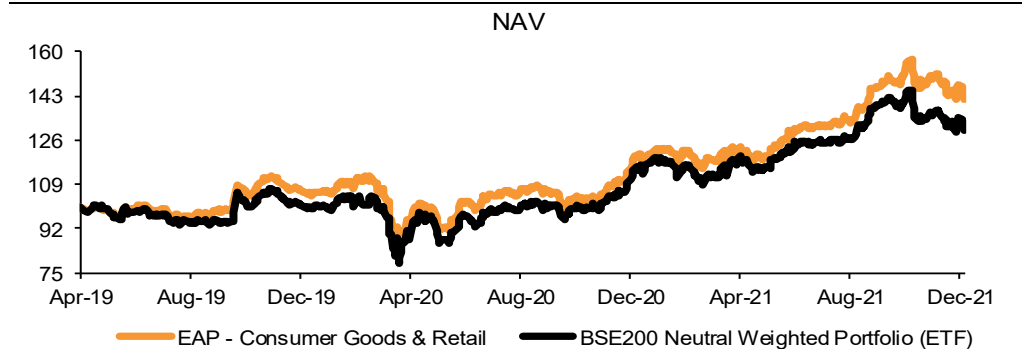
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - Consumer Goods & Retail	-6.1%	-4.3%	8.3%	18.3%
BSE200 Neutral Weighted Portfolio (ETF)	-5.5%	-7.6%	3.8%	12.3%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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