

March 31, 2022

Analyst Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	HOLD		BUY	
Target Price	673		645	
Sales (Rs. m)	21,41,262	19,75,248	19,31,336	18,95,389
% Chng.	10.9	4.2		
EBITDA (Rs. m)	3,07,079	2,75,216	2,79,411	2,71,180
% Chng.	9.9	1.5		
EPS (Rs.)	61.7	50.7	53.1	49.4
% Chng.	16.3	2.7		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. bn)	1,320	1,947	2,141	1,975
EBITDA (Rs. bn)	177	269	307	275
Margin (%)	13.4	13.8	14.3	13.9
PAT (Rs. bn)	55	116	137	113
EPS (Rs.)	24.8	52.1	61.7	50.7
Gr. (%)	39.4	109.9	18.6	(17.8)
DPS (Rs.)	3.0	3.3	3.5	3.5
Yield (%)	0.5	0.6	0.6	0.6
RoE (%)	8.8	16.1	16.3	11.8
RoCE (%)	8.5	14.4	15.3	12.0
EV/Sales (x)	1.4	0.9	0.8	0.9
EV/EBITDA (x)	10.2	6.6	5.8	6.3
PE (x)	24.2	11.5	9.7	11.8
P/BV (x)	2.0	1.7	1.5	1.3

Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.636 / Rs.321
Sensex / Nifty	58,684 / 17,498
Market Cap	Rs.1,348bn/ \$ 17,756m
Shares Outstanding	2,247m
3M Avg. Daily Value	Rs.5972.23m

Shareholding Pattern (%)

Promoter's	34.64
Foreign	25.99
Domestic Institution	21.17
Public & Others	18.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.5	22.9	83.8
Relative	0.2	23.8	57.0

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B/S justifies the new capex; Rating downgrade due to limited upside

Quick Pointers:

- To spend capex of US\$4.5-4.8bn/US\$3.4bn in Novelis/India in next five years
- Guided to allocate 75% of cash flows (after working capital and maintenance capex) towards growth capex

Hindalco (HNDL) hosted analyst meet to explain its capex programs and capital allocation policy over next five years. Given the strong B/S and steep reduction in leverage, announcement of large capex in both Novelis and India was expected for last couple of quarters. The major chunk of capex (~75%) in Novelis would be spent on 600kt of integrated greenfield rolling & recycling mill in US and 450kt of brownfield rolling & recycling capacity in Brazil. Post expansion, Novelis' Rolling and Recycling capacity would increase by 45%/50% to 5.8mnt/3.9mnt by FY27e. In India, ~60% of capex would be spent on 180kt brownfield Aluminium (AL) smelter, 1mnt greenfield Alumina refinery and development of recently acquired coal mines in Odisha.

Novelis posted sharp expansion in margins over last one year. However, we see significant headwinds to its margins and volumes due to abnormal AL prices, narrowing scrap spreads and elevated cost pressures. We also believe that restricted supplies from Russia and high AL prices would result in restart of idle capacity in China. China's daily AL output increased to 9-month in February. Given the significant outperformance of stock, limited upside and reasonably priced valuations, we downgrade stock to Hold with revised TP of Rs673 (earlier TP of Rs645) with an EV/EBITDA of 6.6x FY23e.

- Higher energy costs and chip shortage to impact Novelis' earnings in Q4FY22e:** Due to unhedged energy exposure and lower shipments, Novelis earnings would take a hit of US\$70-75mn in Q4FY22. Around 25% of its energy exposure in both North America and Europe is unhedged. Due to sharp increase in gas and power rates, company expects hit of US\$40mn on unhedged exposure. While, company guided impact of ~US\$30-35mn due to lower offtake by customers on account of semi-conductor chip shortage.
- Upstream AL capacity expansion gets the maximum allocation:** HNDL would invest US\$3.4bn in Indian operations. Around 51% of the investment would go to expanding 1) Alumina capacity by 1.35mnt (including 1mnt of greenfield Alumina refinery) and 2) brownfield smelter capacity by 230kt. In downstream AL, no major expansion was announced in addition to ongoing projects. Company will invest US\$459mn on developing two coal mines with total capacity of 14.0-16.5mnt to meet almost entire of coal requirement.
- Expanding Novelis' capacity by ~29% to 5.8mnt:** Novelis would add another 1.3mtpa capacity over and above ongoing expansion of 0.6mtpa to reach 5.8mtpa by FY27. Around 2/3rd of capex (US\$3bn) would be spent in North America. It would spend US\$0.85-0.95bn/US\$0.3-0.4bn/US\$0.4bn in South America/Europe/Asia.

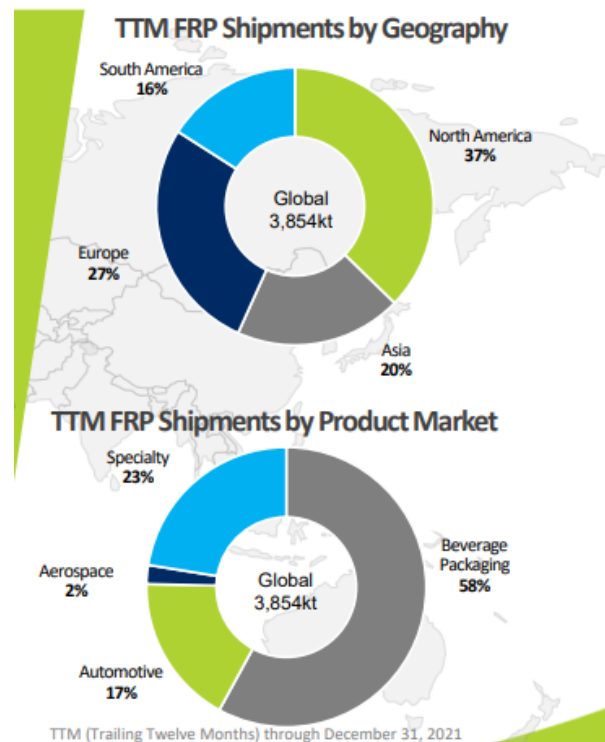
- Recycled content would increase further by 600bps:** Company expects to increase recycled content to 67% by FY27 from current 61%. Share of recycled content in Beverage cans would increase further from current 75%. While, Building & Construction segment has limited scope for further increase as it is already at elevated level of ~90%. Share of recycled content in Auto is on lower side and has the scope to increase.

Exhibit 1: Novelis, a dominant player in Flat Rolled Products (FRP)



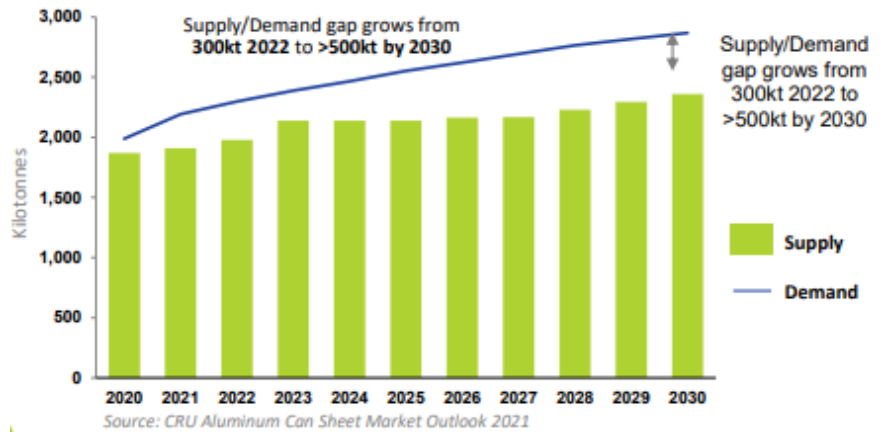
Source: Company, PL

Exhibit 2: Global share of Novelis' FRP shipments



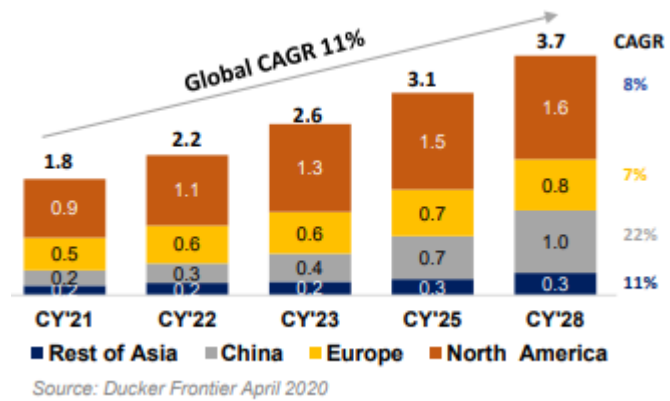
Source: Company, PL | TTM- Trailing Twelve Months

Exhibit 3: North America Can Sheet Market in deficit; New supplies to increase in CY23



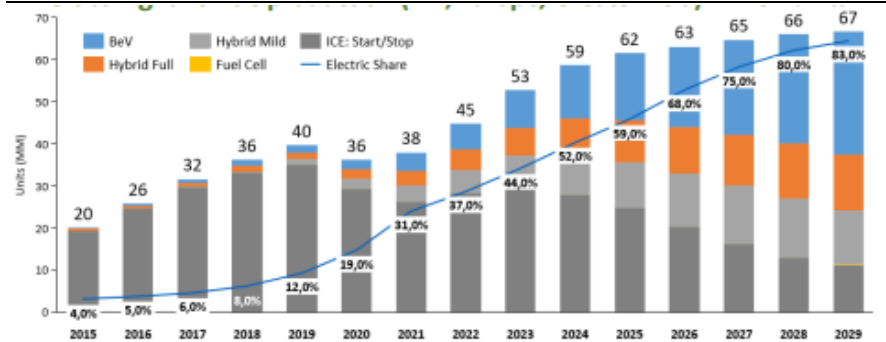
Source: Company, PL

Exhibit 4: Global Automotive AL FRP Demand (mtpa) to grow at 11% CAGR



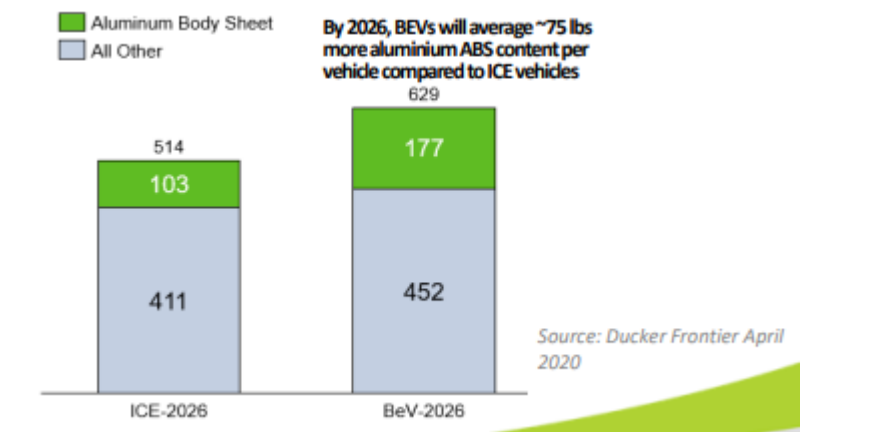
Source: Company, PL

Exhibit 5: Global light vehicle production (NA, Europe, Greater Asia)



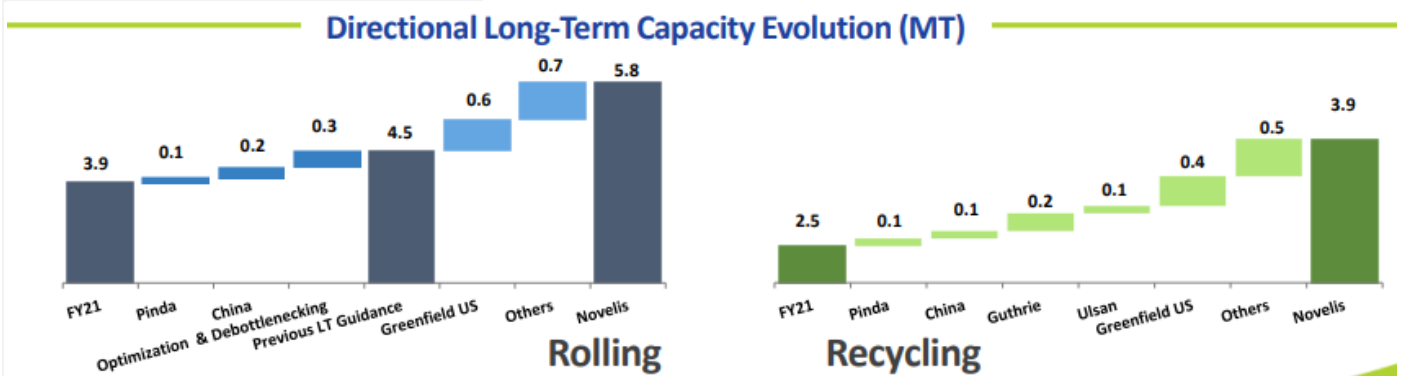
Source: Company, IHS February 21, 2022 Alternative Propulsion Production Forecast, PL | NA- North America

Exhibit 6: Share of AL content in Battery EV higher by 72% compared to ICE



Source: Company, PL

Exhibit 7: Novelis announced additional 1.3mtpa rolling expansion in addition to earlier guidance of 0.6mtpa in 2021



Source: Company, PL

Exhibit 8: Novelis' growth capex of US\$4.5-4.8bn in FY23-FY27 facilitated by Stable Cash flows and reduced Leverage

Identified Projects	Location	Primary Product Markets Supported	Capacity (Kt)	Cost (US\$)	Expected completion
North America				\$3.0 Bn	
Hot mill debottlenecking & automotive upgrades	Oswego, US	Specialties, Auto	124	\$130 mn	FY2024
Recycling expansion & upgrades	Greensboro, US	Can	30	\$30 mn	FY2023
State-of-the art Automotive Recycling & Casting Centre	Guthrie, US	Auto	240	\$365 mn	FY2026
Under Appraisal : Fully Integrated Greenfield Rolling & Recycling Mill	US	Can, Auto	600	\$2.5 bn	FY2026
Asia				\$0.4 Bn	
Integrated cold mill and closed loop recycling	Zhenjiang, China	Auto	200	\$375 mn	FY2026
Recycling and Casting Centre at UAL	UAL, S. Korea	All	100	\$50 mn	FY2026
Under Appraisal: Brownfield rolling capacity	S. Korea	Can	50	\$20-30 mn	Est. FY2024
Europe				\$0.3-0.4 Bn	
Under Appraisal: Brownfield rolling capacity	Germany	Can	200	\$200-\$300 mn	Est. FY2026
Under Appraisal: Brownfield recycling capacity	Germany	Automotive	150	\$100-\$150 mn	Est. FY2027
South America				\$0.8-0.9 Bn	
Rolling Debottlenecking	Pinda, Brazil	Can	70	\$50 mn	FY2024
Under Appraisal: Brownfield rolling & Recycling capacity	Brazil	Can	450	\$800mn-\$1.0 bn	Est. FY2027
TOTAL				\$4.5-4.8 Bn	

Source: Company, PL

Exhibit 9: US\$2.4bn capex in India over next five years (FY23-FY27) on expanding AL upstream and downstream capacity

Identified Projects	Plant/ Region	Capacity (Kt)	Estimated Cost (US\$)	Expected Year of Completion
Aluminium - Upstream			\$1.71 bn	
Alumina Expansion (via Debottlenecking)	Utkal	350	\$40 mn	FY2024
<i>Under Appraisal : Alumina Expansion (Greenfield)</i>	<i>Odisha</i>	<i>1000</i>	<i>\$850 mn</i>	<i>FY2026</i>
Brownfield Smelter Expansion (via Debottlenecking)	Aditya/Mahan	50	\$135 mn	FY2024
<i>Under Appraisal : Brownfield Smelter Expansion (with 3rd Party renewable power)</i>	<i>Aditya/Mahan</i>	<i>180</i>	<i>\$685 mn</i>	<i>FY2026</i>
Aluminium - Downstream			\$719 mn	
Extrusions	Silvassa	34	\$97 mn	FY2025
FRP –Casting & Cold Rolling	Aditya/ Hirakud	170	\$400 mn	FY2025
Coated AC Fins (under PLI)	Taloja	26	\$50 mn	FY2025
<i>Under Appraisal : Can Recycling</i>	<i>Aditya</i>	<i>100</i>	<i>\$67 mn</i>	<i>FY2027</i>
<i>Under Appraisal : Battery Foil Mill</i>	<i>Aditya</i>	<i>24</i>	<i>\$105 mn</i>	<i>FY2026</i>
Total Spends			\$2.43 bn	

Source: Company, PL

Exhibit 10: US\$0.9bn capex in India over next five years (FY23-FY27) in Copper, Speciality Alumina and Coal mines

Identified Projects	Plant/ Region	Capacity (Kt)	Estimated Cost (US\$)	Expected Year of Completion
Copper Business			\$286 mn	
<i>Under Appraisal : Recycling + E-Waste</i>	<i>TBD</i>	<i>100</i>	<i>\$220 mn</i>	<i>FY2025</i>
Inner Grove Tubes (PLI Scheme) & Alloy Rods	Dahej	25	\$66 mn	FY2025
Speciality Alumina			\$194 mn	
Precipitate Hydrate & White Hydrate	Belagavi	60	\$45 mn	FY2025
Synthetic Aggregates (Fused & Tabular Alumina)	Aditya/TBD	90	\$55 mn	FY2025
<i>Under Appraisal : Other Specialty Alumina Products and Brownfield Expansions</i>	<i>Belagavi/TBD</i>	<i>165</i>	<i>\$94 mn</i>	<i>FY2027</i>
Energy			\$459 mn	
Chakla Coal Mine (For Mahan & Renukoot)	Odisha	4-4.5 MTPA	\$186 Mn	FY2025
Meenakshi Coal Mine (For Aditya & Hirakud)	Odisha	10-12 MTPA	\$273 Mn	FY2027
India Business Total Spends			\$3.37Bn	

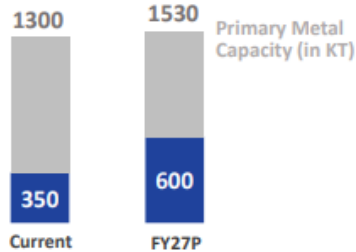
Source: Company, PL | TBD- To be Decided

Exhibit 11: Increase in AL upstream/downstream capacity by 18%/71%

Aluminium VAP (in KT)

VAP Projects

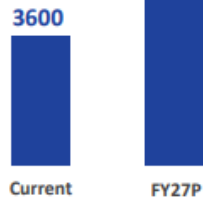
- New Silvassa fully automated Extrusions facility (34Kt)
- State-of-the-art Hirakud-Aditya FRP rolling mill (170Kt)
- Acquisition of Hydro's high-end Extrusion facility (15Kt)
- Coated AC Fins under PLI scheme (26kt)
- Battery Foil Mill (24kt)



Alumina Capacity* (in KT)

Expansion Projects

- Brownfield Expansion 350 Kt
- Greenfield Expansion 1000 kt



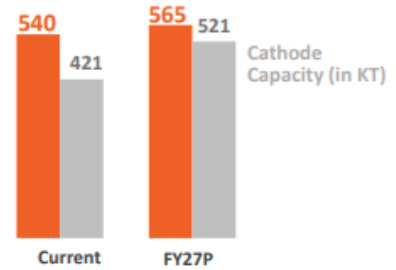
Source: Company, PL | *includes capacity for third party sale

Exhibit 12: Expansion of Copper and Specialty Alumina

Copper VAP (in KT)

VAP Projects

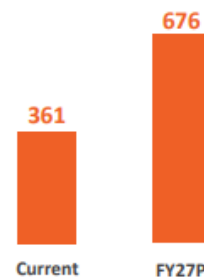
- Acquisition of Ryker Base, a wholly owned subsidiary of Polycab, a cast and rolled copper wire rods facility (225Kt)
- IGT and Alloy Rods (25Kt)



Specialty Alumina VAP# (in KT)

VAP Projects

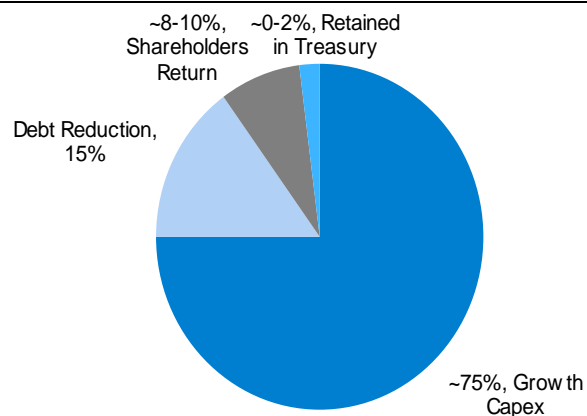
- Precipitate Hydrate
- Fused Alumina
- High Crystalline Alumina
- Tabular Alumina
- White Hydrate
- Activated Alumina



Source: Company, PL | #VAP includes specialty hydrates/alumina and other variants of special alumina for non-metallurgical applications

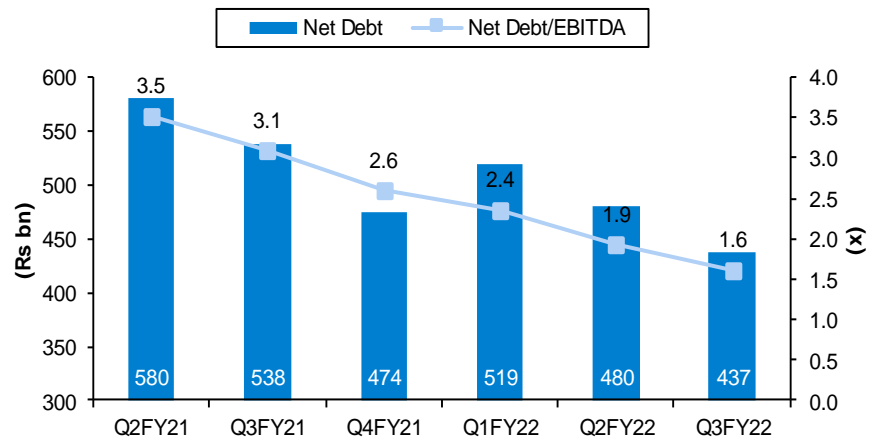
Judicious capital allocation policy with 75%/15% of FCF generation to be used on growth capex/debt reduction.

Exhibit 13: 3/4th of Cash flows (after WC and maintenance capex) will be used for growth capex



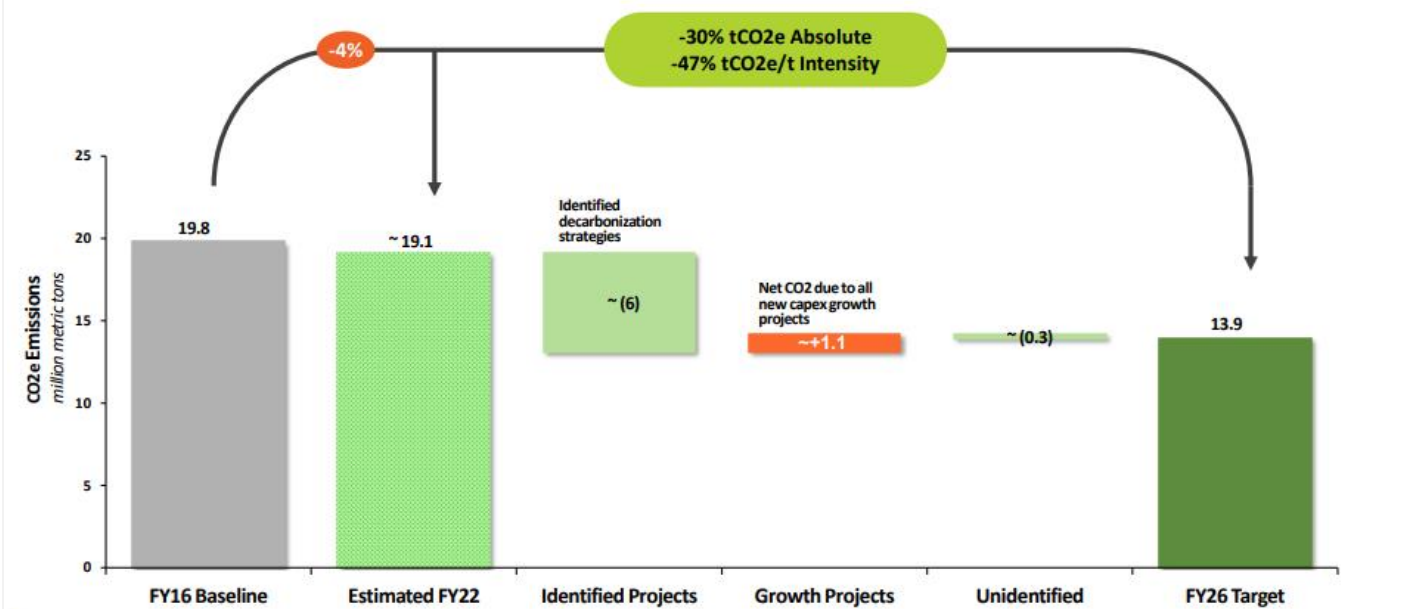
Source: Company, PL

Exhibit 14: Healthy B/S with Net debt/EBITDA at 1.6x to support expansions



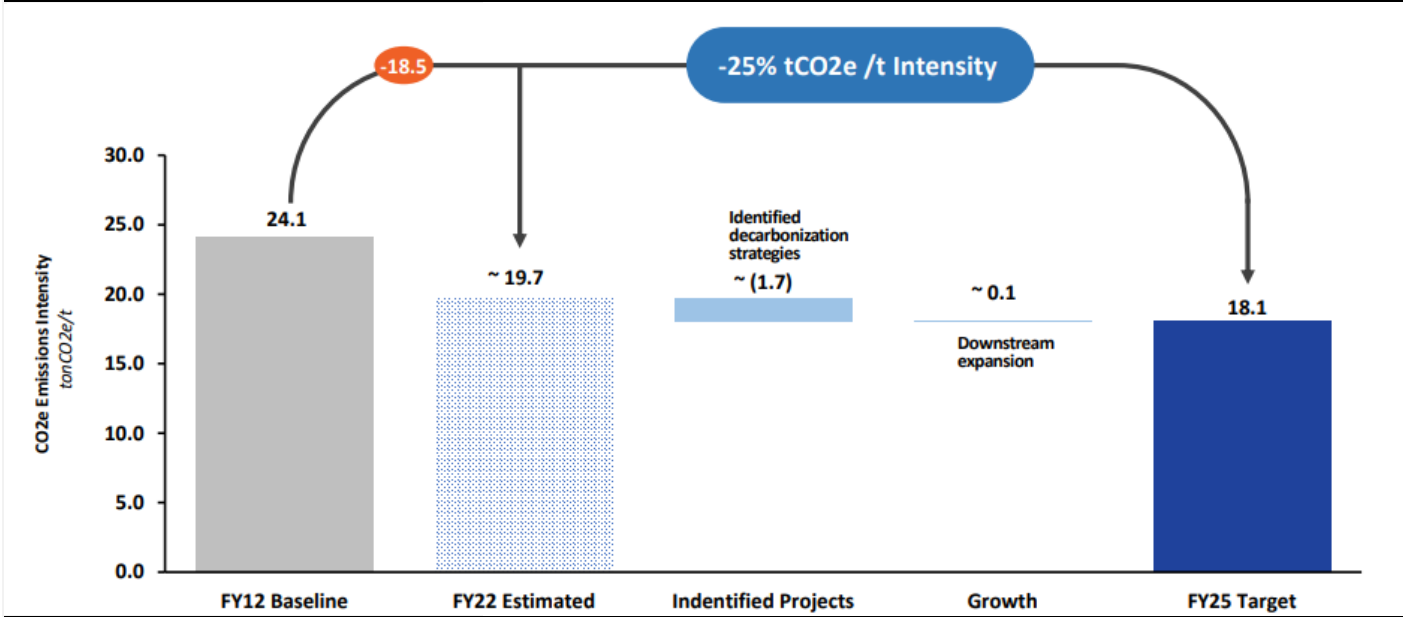
Source: Company, PL

Exhibit 15: Novelis' CO2 emission intensity/t to come down sharply by ~47% by FY26

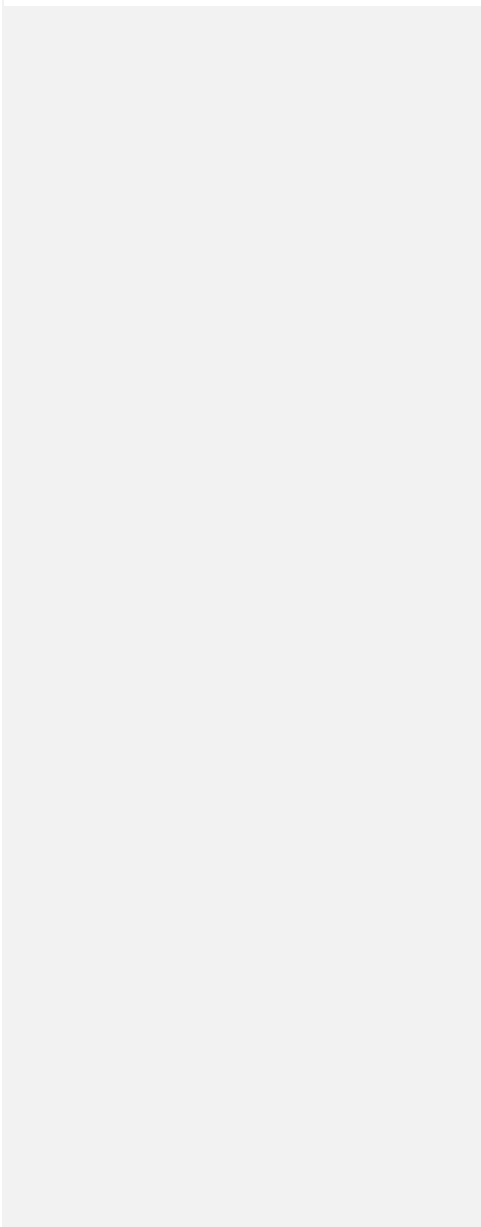


Source: Company, PL

Exhibit 16: India operation's CO2 intensity would fall by a quarter with higher use of renewable power and other measures



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	13,19,850	19,47,118	21,41,262	19,75,248
YoY gr. (%)	11.7	47.5	10.0	(7.8)
Cost of Goods Sold	7,51,450	11,63,985	12,72,336	11,79,278
Gross Profit	5,68,400	7,83,133	8,68,926	7,95,970
Margin (%)	43.1	40.2	40.6	40.3
Employee Cost	1,07,820	1,40,651	1,53,744	1,42,499
Other Expenses	1,34,920	2,25,881	2,46,908	2,28,849
EBITDA	1,76,740	2,69,133	3,07,079	2,75,216
YoY gr. (%)	23.2	52.3	14.1	(10.4)
Margin (%)	13.4	13.8	14.3	13.9
Depreciation and Amortization	67,660	69,236	75,239	79,118
EBIT	1,09,080	1,99,897	2,31,840	1,96,098
Margin (%)	8.3	10.3	10.8	9.9
Net Interest	37,380	35,867	36,684	36,264
Other Income	12,220	9,624	9,634	9,635
Profit Before Tax	79,000	1,73,654	2,04,790	1,69,469
Margin (%)	6.0	8.9	9.6	8.6
Total Tax	27,230	57,008	66,968	56,215
Effective tax rate (%)	34.5	32.8	32.7	33.2
Profit after tax	51,770	1,16,646	1,37,822	1,13,254
Minority interest	-	1,138	851	714
Share Profit from Associate	50	51	52	53
Adjusted PAT	55,044	1,15,560	1,37,023	1,12,593
YoY gr. (%)	39.4	109.9	18.6	(17.8)
Margin (%)	4.2	5.9	6.4	5.7
Extra Ord. Income / (Exp)	(3,224)	-	-	-
Reported PAT	51,820	1,15,560	1,37,023	1,12,593
YoY gr. (%)	37.6	123.0	18.6	(17.8)
Margin (%)	3.9	5.9	6.4	5.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	51,820	1,15,560	1,37,023	1,12,593
Equity Shares O/s (m)	2,220	2,220	2,220	2,220
EPS (Rs)	24.8	52.1	61.7	50.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	13,37,350	14,07,368	15,34,829	15,84,390
Tangibles	13,37,350	14,07,368	15,34,829	15,84,390
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,67,830	6,37,066	7,12,305	7,91,423
Tangibles	5,67,830	6,37,066	7,12,305	7,91,423
Intangibles	-	-	-	-
Net fixed assets	7,69,520	7,70,302	8,22,524	7,92,967
Tangibles	7,69,520	7,70,302	8,22,524	7,92,967
Intangibles	-	-	-	-
Capital Work In Progress	1,05,040	1,02,092	1,76,763	3,18,821
Goodwill	2,33,170	2,33,170	2,33,170	2,33,170
Non-Current Investments	91,310	91,361	91,413	91,466
Net Deferred tax assets	(36,060)	(49,713)	(67,966)	(82,041)
Other Non-Current Assets	12,270	12,270	12,270	12,270
Current Assets				
Investments	94,170	94,170	94,170	94,170
Inventories	3,06,680	4,07,222	4,00,892	3,73,357
Trade receivables	1,30,120	1,84,521	1,96,699	1,78,582
Cash & Bank Balance	88,090	1,47,270	1,45,256	1,62,515
Other Current Assets	29,920	33,023	33,984	33,163
Total Assets	18,96,990	21,11,593	22,44,432	23,27,387
Equity				
Equity Share Capital	2,220	2,220	2,220	2,220
Other Equity	6,63,110	7,71,940	9,01,561	10,06,303
Total Networkth	6,65,330	7,74,160	9,03,781	10,08,523
Non-Current Liabilities				
Long Term borrowings	6,59,780	6,77,620	6,77,580	6,71,580
Provisions	81,460	81,460	81,460	81,460
Other non current liabilities	15,390	15,390	15,390	15,390
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,82,800	3,55,942	3,40,097	3,09,521
Other current liabilities	1,29,770	1,29,770	1,29,770	1,29,770
Total Equity & Liabilities	18,96,990	21,11,593	22,44,432	23,27,387

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	79,050	1,73,654	2,04,790	1,69,469
Add. Depreciation	66,280	69,236	75,239	79,118
Add. Interest	37,380	35,867	36,684	36,264
Less Financial Other Income	12,220	9,624	9,634	9,635
Add. Other	(5,070)	(9,624)	(9,634)	(9,635)
Op. profit before WC changes	1,77,640	2,69,133	3,07,079	2,75,216
Net Changes-WC	14,040	(84,396)	(23,753)	16,281
Direct tax	(12,560)	(43,355)	(48,715)	(42,140)
Net cash from Op. activities	1,79,120	1,41,383	2,34,611	2,49,358
Capital expenditures	(2,50,410)	(64,650)	(1,27,460)	(1,79,709)
Interest / Dividend Income	-	-	-	-
Others	(28,410)	9,624	9,634	9,635
Net Cash from Inv. activities	(2,78,820)	(55,026)	(1,17,826)	(1,70,074)
Issue of share cap. / premium	50	-	-	-
Debt changes	(8,920)	(6,000)	(6,000)	(6,000)
Dividend paid	(2,220)	(6,730)	(7,403)	(7,851)
Interest paid	(36,780)	(35,867)	(36,684)	(36,264)
Others	(790)	-	-	-
Net cash from Fin. activities	(48,660)	(48,596)	(50,086)	(50,115)
Net change in cash	(1,48,360)	37,760	66,698	29,169
Free Cash Flow	1,23,950	76,733	1,07,151	69,649

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	1,44,120	1,32,980	1,72,900	1,80,960
YoY gr. (%)	44.2	79.2	81.7	59.4
Raw Material Expenses	95,540	76,490	1,07,130	1,11,040
Gross Profit	48,580	56,490	65,770	69,920
Margin (%)	33.7	42.5	38.0	38.6
EBITDA	14,860	20,980	31,330	28,020
YoY gr. (%)	31.6	265.5	217.1	143.9
Margin (%)	10.3	15.8	18.1	15.5
Depreciation / Depletion	4,420	4,420	4,240	4,370
EBIT	10,440	16,560	27,090	23,650
Margin (%)	7.2	12.5	15.7	13.1
Net Interest	3,310	3,450	3,430	3,710
Other Income	530	1,010	1,630	1,020
Profit before Tax	7,900	14,080	24,340	20,940
Margin (%)	5.5	10.6	14.1	11.6
Total Tax	2,950	4,980	8,260	7,060
Effective tax rate (%)	37.3	35.4	33.9	33.7
Profit after Tax	4,950	9,100	16,080	13,880
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,800	9,126	16,708	13,893
YoY gr. (%)	50.8	(5,119.2)	633.2	282.7
Margin (%)	3.3	6.9	9.7	7.7
Extra Ord. Income / (Exp)	150	(26)	(628)	(13)
Reported PAT	4,950	9,100	16,080	13,880
YoY gr. (%)	51.8	(2,375.0)	712.1	308.2
Margin (%)	3.4	6.8	9.3	7.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,950	9,100	16,080	13,880
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
EPS (Rs)	2.2	4.1	7.5	6.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	24.8	52.1	61.7	50.7
CEPS	55.3	83.2	95.6	86.4
BVPS	299.7	348.7	407.1	454.3
FCF	55.8	34.6	48.3	31.4
DPS	3.0	3.3	3.5	3.5
Return Ratio(%)				
RoCE	8.5	14.4	15.3	12.0
ROIC	6.5	11.7	12.2	9.5
RoE	8.8	16.1	16.3	11.8
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.5	0.4
Net Working Capital (Days)	43	44	44	45
Valuation(x)				
PER	24.2	11.5	9.7	11.8
P/B	2.0	1.7	1.5	1.3
P/CEPS	10.9	7.2	6.3	6.9
EV/EBITDA	10.2	6.6	5.8	6.3
EV/Sales	1.4	0.9	0.8	0.9
Dividend Yield (%)	0.5	0.6	0.6	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Aluminium (Al) prod (t)	12,28,948	12,93,864	13,06,624	13,19,384
Copper (Cu) prod (t)	2,62,203	3,91,500	4,00,000	4,25,000
LME-Al (USD/t)	1,802	2,448	2,861	2,438
LME-Cu (USD/t)	6,880	9,600	8,500	8,000
EBITDA-Al (Rs m)	54,120	1,09,004	1,43,330	1,09,881
EBITDA-Cu (Rs m)	8,700	11,000	11,000	11,000
Novelis (volumes kt)	3,613	3,841	3,917	3,996
Novelis-EBITDA/t (US\$)	460	530	525	520
Novelis-EBITDA (US\$ mn)	1,662	2,036	2,057	2,078

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Feb-22	BUY	645	547
2	11-Jan-22	BUY	620	493
3	15-Nov-21	BUY	570	469
4	07-Oct-21	BUY	570	478
5	07-Aug-21	BUY	500	442
6	05-Aug-21	BUY	500	443
7	08-Jul-21	BUY	455	383
8	24-May-21	BUY	455	390

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,370	2,151
2	Ambuja Cement	BUY	390	338
3	Coal India	Accumulate	192	170
4	Dalmia Bharat	Accumulate	2,130	1,785
5	Heidelberg Cement India	Reduce	200	215
6	Hindalco Industries	BUY	645	547
7	Hindustan Zinc	Reduce	288	330
8	Jindal Steel & Power	BUY	555	417
9	JK Lakshmi Cement	Hold	663	559
10	JSW Steel	Accumulate	760	666
11	NMDC	Accumulate	175	156
12	Shree Cement	Hold	26,830	24,724
13	Steel Authority of India	Accumulate	152	110
14	Tata Steel	BUY	1,745	1,183
15	The Ramco Cements	Hold	925	897
16	Ultratech Cement	Accumulate	8,535	7,870

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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