

CMP: ₹ 614

Target: ₹ 890 (45%)

Target Period: 12 months

May 12, 2022

BUY

## Distillery volumes, de-leveraging to boost profits...

**About the stock:** Avadh Sugar has 31800 TCD sugarcane crushing capacity, 325 KLD distillery capacity & 74 MW saleable power capacity. The company produces 6.0 lakh tonnes (lt) of sugar, 8 crore litre of ethanol & 15 crore units of saleable power.

- The company has increased its distillery capacity from 240 KLD to 325 KLD with a capex of ₹ 135 crore. This would help it increase its annual ethanol production to 11 crore litre

**Q4FY22 Results:** Avadh reported a 44% jump in ethanol sales in Q4FY22.

- Sales was down 8.7% to ₹ 758.7 crore impacted by lower sugar volumes
- EBITDA was at ₹ 84.9 crore, down 20.7% YoY, with margins at 11.2%
- Consequent PAT was ₹ 51.3 crore (down 9.3%) impacted by dip in EBITDA

**What should investors do?** Avadh's share price has gone up by 177% in the last five years (from ₹ 220 in July 2017 to ₹ 614 in May 2021).

- We expect 15.7% CAGR in distillery volumes to boost earnings with CAGR of 24.1% during FY22-24E
- We continue to maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 890, valuing the business at 8x FY24 PE

**Key triggers for future price performance:**

- The company has expanded distillery capacity by 80 KLD with a capex of ₹ 135 crore, which has increased its distillery volumes to 11 crore. Avadh would be maximising B-heavy & sugarcane juice ethanol production
- Industry wise Sugar inventory has fallen from 14.5 million tonnes (MT) in September 2019 to 8.2 MT in September 2021, which would further come down to below 7 MT by September 2022 owing to record exports. This would keep sugar prices firm
- With the inventory liquidation in the next one year and boost in profitability, the company would be able to de-leverage its balance sheet. We expect debt reduction of ₹ 760 crore between FY22 and FY24E

**Alternate Stock Idea:** We also like Dwarikesh Sugar in our sugar coverage.

- The company is one of the most efficient companies with highest sugar recovery & abundant sugarcane availability. It is increasing its distillery capacity to 2x by FY24E
- We value the stock at ₹ 145/share with BUY recommendation



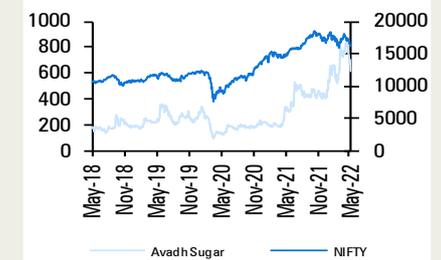
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,228.9
Total Debt (FY22)	1,212.8
Cash and Investments (FY22)	3.1
EV	2,438.6
52 week H/L (₹)	885 / 292
Equity capital	20.0
Face value (₹)	10.0

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	49.1	49.1	49.1	49.1
FII	5.8	5.3	5.9	8.7
DII	0.8	0.6	0.6	0.5
Others	44.3	45.0	44.4	41.8

### Price Chart



### Recent event & key risks

- Avadh is utilising expanded capacity to produce ethanol through juice & B-heavy molasses
- Key Risk:** (i) Significant reduction in global sugar prices could derail exports next season (ii) Any weather related disruption on sugarcane yields or sugar recovery

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	CAGR (FY17-22E)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	2559.4	2710.5	2743.7	44.4%	2969.8	3043.7	5.3%
EBITDA	261.4	259.3	302.8	-6.7%	387.6	420.6	17.9%
EBITDA Margin %	10.2	9.6	11.0		13.1	13.8	
Net Profit	88.6	77.6	124.4	-9.4%	191.4	232.1	36.6%
EPS (₹)	44.31	38.79	62.20	-9.4%	95.71	116.06	36.6%
P/E	13.9	15.8	9.9		6.4	5.3	
RoNW %	15.0	11.7	15.4		19.5	19.7	
RoCE (%)	10.6	11.5	12.5		17.8	22.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q4FY22 Results: Higher ethanol volumes, significant debt reduction to boost profits

- Consolidated sales witnessed a dip of 8.7% to ₹ 758.7 crore on account of dismal sugar sales. Sugar volumes were down by 21.3% to 1.65 lakh tonnes. The company received 0.98 lakh tonnes (lt) of domestic quota for the quarter against 1.2 lt in the corresponding quarter. Further, sugar exports volume was at 0.63 lt against 0.95 lt in the corresponding quarter. Sugar realisation was up 5.1% up to ₹ 32.9 / kg. Annual sugar sale was at 6.2 lt (10% lower) at an average realisation of ₹ 33.9.kg (6.4% higher)
- Distillery sales were up by 44.5% led by increase in ethanol volumes along with higher realisation due to increasing proportion of B-heavy / sugarcane juice ethanol in the current sugar season. Most sugar millers are aggressively diverting sugarcane towards ethanol production
- Distillery volume grew 37.5% to 2.2 crore litre on account of newly expanded capacities in current season. Distillery realisation was up 7.9% led by higher proportion of ethanol produced from sugarcane juice & B-heavy molasses. Out of the 2.2 crore litre of ethanol, 40% was B-heavy ethanol & 60% was sugarcane juice ethanol. The company sold 8.2 crore litre (31% higher) of ethanol in FY22
- Co-generation volumes were up 4% to 7.07 crore units at an average tariff of 3.08 /unit. On a full year basis, power volumes were down 8.2% to 13.55 crore units at an average realisation of 3.07/unit
- The company crushed 52.6 lt of sugarcane in FY22 against 57.8 lt in FY21. This was mainly on account of late start of crushing in the 2021-22 season due to unseasonal rains in October 2021. We believe the company would be crushing 56 lt for the season
- Average sugar recovery was 10.27%, down 52 bps due to higher diversion towards ethanol during the season. However, on a like to basis, sugar recovery is down by ~30 bps due to unfavourable weather conditions in the current season
- Operating profit was down 20.7% to ₹ 84.9 crore on account of lower sugar sales & sustained fixed costs. With the increase in sugarcane prices in 2021-22 & lower recovery rates, average cost of production has increased by ₹ 3/kg for the company. Though sugar prices were higher by almost ₹ 2/kg, it is still lower than cost increase during the quarter
- Sugar prices have moved up by ₹ 1-2 /kg from April-2022 onwards. Interest costs came down from ₹ 27.9 crore to ₹ 19.7 crore due to reduction in working capital requirement & benign interest rates. Net profit dipped by 9.3% to ₹ 51.3 crore
- On a full year basis, net profit increased 60.3% to ₹ 124.4 crore on account of better sugar realisation, significant sugarcane diversion towards ethanol & reduction in interest costs. The company declared a ₹ 10/share dividend for the year
- In FY22, the company reduced its total debt by ₹ 161 crore despite distillery capacity addition. Sugarcane dues came down by ₹ 229 crore. Avadh's overall liability has come down by ₹ 394 crore during the year
- Sugar inventories have come down by 0.95 lt to 2.9 lt. Closing inventory is valued at ₹ 32.2/kg. With the aggressive exports & diversion towards ethanol, sugar inventories are likely to come down further by 0.9 lt by March 2024 (our estimate)
- Industry wise sugar production is expected to 35.5 million tonnes (MT) in 2021-22 sugar season. Moreover, with expected sugar consumption of 27.8 MT & exports of 9.5 MT, sugar inventories are likely to come down to 6.5 MT by September 2022

- Sugar crushing season for Brazil has started in April-2022. Given high crude prices, ethanol parity for sugar prices is ~21 cents / lb. Brazilian sugar industry is expected to divert 58% sugarcane towards ethanol (56% last season), which is likely to keep global sugar prices firm above 18 cents /lb

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	398	600	Buy	8357	-3.2	12.8	31.6	36.6	14.8	15.8	19.6	21.4	17.4	15.4	11.7	8.6	3.2	2.9	2.6	2.3	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	392	660	Buy	3176	39.9	24.2	12.6	14.8	17.6	18.5	20.5	20.4	11.8	9.5	8.4	7.3	1.5	1.5	1.3	1.2	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	265	350	Buy	6411	-9.9	48.9	20.2	23.3	11.9	14.6	15.4	17.2	21.8	14.6	12.2	9.9	4.1	3.6	3.1	2.6	19.4	19.6	23.5	26.4
Dwarikesh sugar (DWASUG)	105	145	Buy	1978	24.5	69.6	15.7	47.7	10.9	14.7	14.2	18.7	21.6	12.7	11.0	7.5	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	614	890	Buy	1229	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	15.8	9.9	6.4	5.3	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0
Dhampur Sugar (DHASUG)	372	475	Buy	2473	5.8	30.2	20.1	15.9	11.0	15.4	14.4	14.9	10.8	8.3	6.9	6.0	2.1	1.8	1.6	1.3	14.8	16.6	17.6	19.5

Source: Company, ICICI Direct Research

The sugar industry has been able to reduce country wise sugar inventories from 14.5 million tonnes to 8.2 million tonnes (MT) in the last two years. Despite significant increase in sugar production of 35.5 MT in current season, inventories would further come down by 1.7 MT by September 2022 mainly due to record 9.5 million tonnes of exports. With the increasing sugarcane diversion towards ethanol and aggressive exports due to favourable higher global sugar price, sugar prices are expected to remain benign, going forward. Further, high sugar production is an opportunity to increase the blending target beyond 20% in future. Avadh Sugar is one of the most attractively valued companies in the sugar sector given new distillery capacity & considerable reduction in working capital debt would boost earnings in the next two years. We remain positive on the sugar sector, in general, and Avadh Sugar in particular. We maintain our BUY recommendation on the stock with a target price of ₹ 890/share (earlier: ₹ 970).

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Operating Income	758.7	830.8	-8.7	746.5	1.6	Net sales witnessed a de-growth of 8.7% mainly on account of decline in sugar sales due to lower domestic sale quota & lower exports in Q4
Other Operating Income	0.0	0.0	NC	0.0	NC	
Raw Material Expenses	570.2	628.1	-9.2	587.2	-2.9	
Employee Expense	28.7	27.8	3.3	27.1	6.0	
Other operating Expenses	74.9	67.9	10.2	59.2	26.5	
EBITDA	84.9	107.0	-20.7	73.1	16.2	Operating profit was down due to sustained fixed cost & lower sales
EBITDA Margin (%)	11.2	12.9	-169 bps	9.8	141 bps	
Depreciation	12.6	12.7	-0.9	13.0	-3.2	
Interest	19.7	27.9	-29.6	16.2	21.4	Interest cost was down given considerable reduction in total debt
Other Income	1.6	2.0	-18.3	0.5	206.8	
PBT	54.4	68.5	-20.6	44.4	22.3	
Tax Outgo	3.0	11.9	NC	15.6	-80.7	
PAT	51.3	56.6	-9.3	28.9	NC	Net profit dipped in line with sales decline
<b>Key Metrics</b>						
Sugar sales volume (in tonnes)	1.7	2.1	-21.3	1.7	-2.2	Sugar volumes were down due to lower domestic sales quota as well as export volumes during the quarter
Domestic Sugar realisation (₹ per kg)	32.9	31.3	5.1	35.5	-7.4	Sugar realisation was up by 5.1%
Distillery volumes (in crore litre)	2.2	1.6	37.5	1.8	22.4	Distillery volume were up by 37.5% on the back of capacity expansion in current season
Distillery realisation (₹ per litre)	62.2	57.6	7.9	57.7	7.7	The company sold ethanol produced through sugarcane juice & B-heavy process

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	3,029.8	2969.8	-2.0	3,044.8	3043.7	0.0	We estimate lower sugar exports volumes in FY23.
EBITDA	387.1	387.6	0.1	414.3	420.6	1.5	No major change in any other numbers
EBITDA Margin (%)	12.8	13.1	27 bps	13.6	13.8	21 bps	
PAT	192.8	191.4	-0.7	234.2	232.1	-0.9	
EPS (₹)	96.4	95.7	-0.7	117.1	116.1	-0.9	

Source: ICICI Direct Research

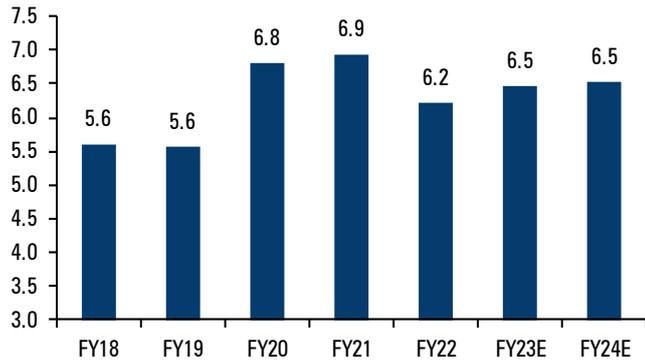
Exhibit 4: Assumptions

	Current					Earlier				Comments
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E		
Sugar Sold (in tonne)	556,500	679,600	692,800	620,900	645,736	652,193	657,744	651,167	We estimate lower sugar sales volumes in FY23E	
Sugar Price (₹ per tonne)	30,696	29,962	31,720	33,900	35,000	35,500	35,100	35,600	Slight change in sugar price estimate	
Distillery volume (in cr litre)	5.8	4.8	6.2	8.2	10.9	11.0	10.7	10.9	Slight change in distillery volume estimates	
Distillery price (₹ per KL)	43.7	49.4	55.4	59.0	59.0	60.2	58.6	58.6	Change in distillery realisation estimates due to high proportion of sugarcane juice ethanol sales	
Power Units sold	19.0	17.6	14.8	14.8	14.8	14.9	15.7	15.8	Small change in power volume estimates	
Price per unit (₹ per units)	5.0	2.9	3.0	3.1	3.1	3.2	3.2	3.2		

Source: ICICI Direct Research

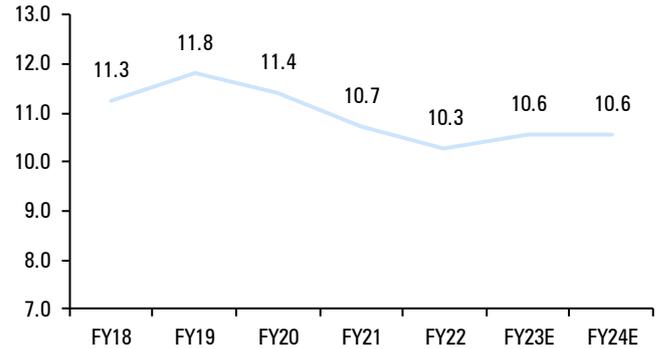
## Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



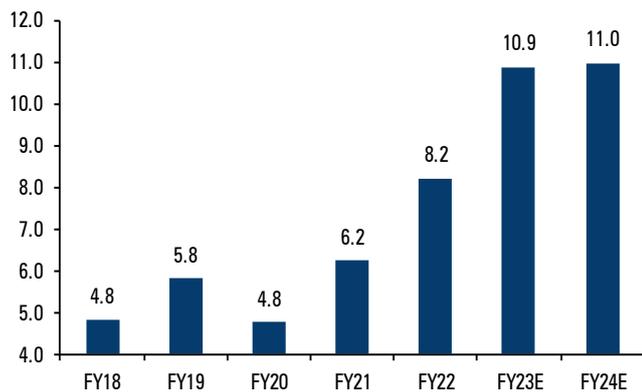
Source: ICICI Direct Research, Company

Exhibit 6: Reduction in sugar recovery rate after higher proportion of sugarcane diversion towards B-heavy ethanol



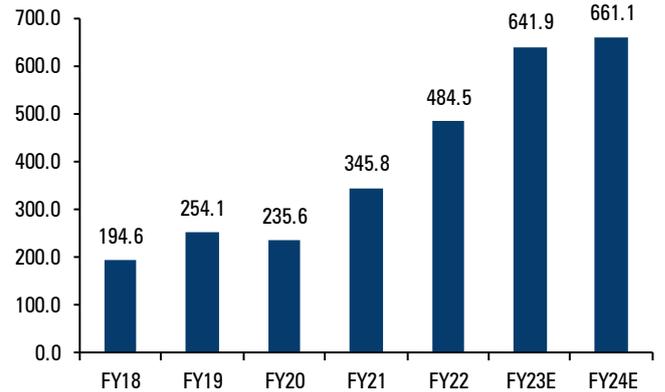
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



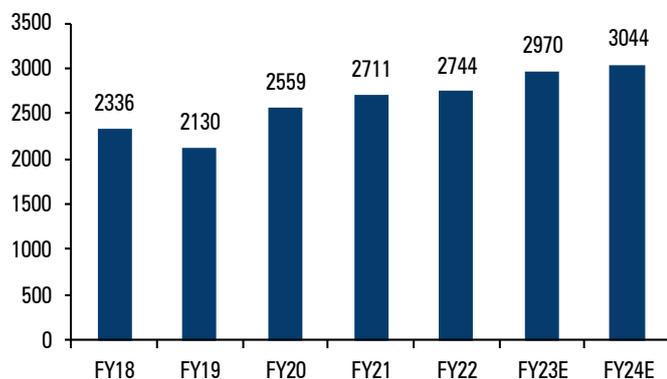
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



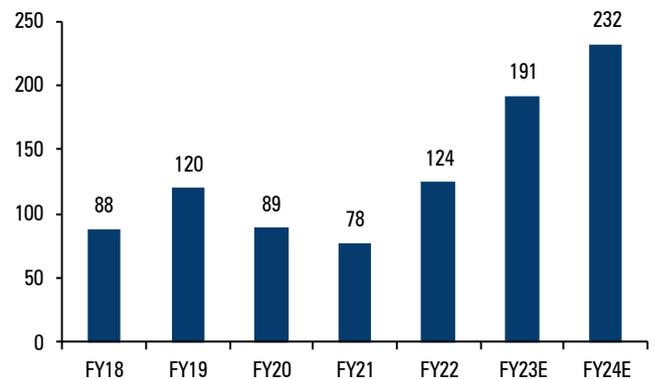
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Adjusted PAT trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2710.5	5.9	38.8	-12.4	15.8	9.4	11.7	11.5
FY22	2743.7	1.2	62.2	60.3	9.9	8.0	15.4	12.5
FY23E	2969.8	8.2	95.7	53.9	6.4	5.3	19.5	17.8
FY24E	3043.7	2.5	116.1	21.3	5.3	3.9	19.7	22.0

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>2,710.5</b>	<b>2,743.7</b>	<b>2,969.8</b>	<b>3,043.7</b>
Growth (%)	5.9	1.2	8.2	2.5
Raw Material Expenses	2,127.7	2,114.5	2,240.7	2,263.9
Employee Expenses	97.3	100.1	109.9	124.8
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	226.2	226.3	231.6	234.4
Total Operating Expenditure	2,451.2	2,440.8	2,582.2	2,623.1
<b>EBITDA</b>	<b>259.3</b>	<b>302.8</b>	<b>387.6</b>	<b>420.6</b>
Growth (%)	-0.8	16.8	28.0	8.5
Depreciation	48.3	51.3	58.1	60.1
Interest	116.0	88.4	77.8	54.5
Other Income	6.4	4.1	4.3	4.4
PBT	95.0	163.1	251.6	306.0
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	23.8	42.8	64.5	78.2
<b>PAT</b>	<b>77.6</b>	<b>124.4</b>	<b>191.4</b>	<b>232.1</b>
Growth (%)	-12.4	60.3	53.9	21.3
EPS (₹)	38.8	62.2	95.7	116.1

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	101.4	167.2	191.4	232.1
Add: Depreciation	48.4	51.3	58.1	60.1
Add: Interest	116.0	88.4	0.0	0.0
(Inc)/dec in Current Assets	268.3	247.8	179.7	150.8
Inc/(dec) in Current Liabilities	-49.3	-206.5	53.0	53.1
<b>CF from operating activities</b>	<b>465.5</b>	<b>313.7</b>	<b>482.2</b>	<b>496.2</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-110.9	-55.5	-100.0	-50.0
Others	2.9	1.9	2.3	0.0
<b>CF from investing activities</b>	<b>-108.0</b>	<b>-53.6</b>	<b>-97.7</b>	<b>-50.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-53.0	55.3	-350.0	-410.0
Dividend paid & dividend tax	-8.0	-8.0	-20.0	-34.0
Inc/(dec) in Sec. premium	-119.1	0.0	0.0	0.0
Others	-177.6	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-358.0</b>	<b>-264.3</b>	<b>-370.0</b>	<b>-444.0</b>
Net Cash flow	-0.5	-4.1	14.4	2.2
Opening Cash	5.4	4.9	0.8	15.2
Cash with bank	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>4.9</b>	<b>0.8</b>	<b>15.2</b>	<b>17.4</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	20.0	20.0	20.0	20.0
Reserve and Surplus	645.7	790.4	961.8	1,159.9
Total Shareholders funds	665.8	810.4	981.8	1,179.9
Total Debt	1,215.1	1,212.8	862.8	452.8
Long Term Provisions	4.0	1.7	1.7	1.7
Other Non-current Liabilities	12.4	26.1	26.1	26.1
<b>Total Liabilities</b>	<b>1,897.3</b>	<b>2,051.1</b>	<b>1,872.5</b>	<b>1,660.6</b>
<b>Assets</b>				
Gross Block	1,309.6	1,353.4	1,453.4	1,503.4
Less: Acc Depreciation	225.2	276.5	334.7	394.8
Net Block	1,084.4	1,076.9	1,118.7	1,108.6
Capital WIP	14.0	8.6	8.6	8.6
Intangible assets	0.5	0.5	0.5	0.5
Non Current Investments	15.2	46.8	46.8	46.8
Other non-current assets	7.7	23.3	23.3	23.3
<b>Current Assets</b>				
Inventory	1,350.6	1,169.7	989.9	845.5
Debtors	55.1	85.7	85.8	79.5
Cash	6.9	3.1	15.2	17.4
Loans & Advances	0.5	0.5	0.5	0.5
Other Current Assets	113.9	15.4	15.4	15.4
<b>Current Liabilities</b>				
Creditors	539.5	310.5	313.4	316.6
Provisions	6.1	7.3	7.3	7.3
Other CL	206.0	61.6	111.6	161.6
Net Current Assets	775.5	895.0	674.5	472.7
<b>Total Assets</b>	<b>1,897.3</b>	<b>2,051.1</b>	<b>1,872.5</b>	<b>1,660.6</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	38.8	62.2	95.7	116.1
Cash EPS	62.9	87.8	124.8	146.1
BV	332.9	405.2	490.9	589.9
DPS	4.0	4.0	10.0	17.0
Cash Per Share	112.6	138.3	167.3	197.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.6	11.0	13.1	13.8
PBT / Net Sales	3.7	6.1	8.6	10.2
PAT Margin	2.9	4.5	6.4	7.6
Inventory days	181.9	155.6	121.7	101.4
Debtor days	7.4	11.4	10.5	9.5
Creditor days	72.6	41.3	38.5	38.0
<b>Return Ratios (%)</b>				
RoE	11.7	15.4	19.5	19.7
RoCE	11.5	12.5	17.8	22.0
<b>Valuation Ratios (x)</b>				
P/E	15.8	9.9	6.4	5.3
EV / EBITDA	9.4	8.0	5.3	3.9
EV / Net Sales	0.9	0.9	0.7	0.5
Market Cap / Sales	0.5	0.4	0.4	0.4
Price to Book Value	1.8	1.5	1.3	1.0
<b>Solvency Ratios</b>				
Debt/EBITDA	4.7	4.0	2.2	1.1
Debt / Equity	1.8	1.5	0.9	0.4
Current Ratio	2.6	3.4	2.5	1.9
Quick Ratio	0.3	0.3	0.2	0.2

Source: Company, ICICI Direct Research

**Exhibit 16: ICICI Direct coverage universe (Sugar)**

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	398	600	Buy	8,357	22.8	25.8	33.9	46.3	17.4	15.4	11.7	8.6	13.3	11.8	9.6	6.9	3.2	2.9	2.6	2.3	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	392	660	Buy	3,176	33.4	41.5	46.7	53.6	11.8	9.5	8.4	7.3	8.5	7.9	6.4	5.5	1.5	1.5	1.3	1.2	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	265	350	Buy	6,411	12.2	18.1	21.8	26.9	21.8	14.6	12.2	9.9	12.9	11.7	9.4	7.7	4.1	3.6	3.1	2.6	19.4	19.6	23.5	26.4
Dwarikesh sugar (DWASUG)	105	145	Buy	1,978	4.9	8.2	9.5	14.1	21.6	12.7	11.0	7.5	12.6	8.4	7.7	5.0	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Dhampur Sugar (DHASUG)	372	475	Buy	2,473	34.4	44.7	53.7	62.3	10.8	8.3	6.9	6.0	9.2	7.8	6.7	5.6	2.1	1.8	1.6	1.3	14.8	16.6	17.6	19.5
Avadh Sugar (AVASUG)	614	890	Buy	1,229	38.8	62.2	95.7	116.1	15.8	9.9	6.4	5.3	9.4	8.0	5.3	3.9	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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