

CMP: ₹ 375

Target: ₹ 415 (11%)

Target Period: 12 months

HOLD

July 26, 2022

Strong topline growth; high input cost drags margin

About the stock: Crompton Greaves Consumer (CGCEL) is among India's leading fast moving electrical goods (FMEG) companies, present in electrical consumer durables (~77% of revenue) and lighting businesses (~14% of revenue). The company has acquired Butterfly Gandhimathi Appliances Limited which contributes ~13% to the revenue

- Market leader in the domestic fan industry with value market share of 29%. The company has enhanced focus on increasing market share in home appliances categories like (air coolers, water heater and kitchen appliances)
- Robust balance sheet with RoE & RoCE of ~30% each (three-year average), respectively, with stringent working capital policy

Q1FY23 Results: Favourable base and consolidation of 'Butterfly' drives topline growth; high raw material costs restricted EBITDA margin expansion

- Reported consolidated revenues are up by ~77% YoY to ~₹ 1863 crore led by consolidation of 'Butterfly' revenues and strong growth in ECD & lighting revenues aided by demand revival and favourable base in Q1FY23
- Gross margin declined ~100 bps YoY owing to higher RM costs. However, savings in other costs restricted EBITDA margin fall at 10 bps YoY to 11.8%
- PAT increased by 28% YoY to ₹ 121 crore; tracking strong topline growth

What should investors do? CGCEL's share price has given return of ~80% in the past five years (from ~₹ 208 in July 2017 to ~₹ 375 levels in July 2022).

- We maintain our **HOLD** rating on the stock

Target Price & Valuation: We valued CGCEL at ₹ 415 i.e. 40x P/E FY24E EPS.

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration are demand boosters of home appliances
- Expanding Butterfly products pan India leveraging existing dealer networks
- Plans additional revenues by entering into new category 'Built-in kitchen' segment. Built-in kitchen industry is pegged at ₹ 2200 crore; growing at 10%. Company aims 10% market share in next three years

Alternate Stock Idea: We like Polycab India in our coverage. Polycab is the market leader in the wire & cable business with organised market share of 22%-24%. In the FMEG segment, it is growing through new product launches and dealer addition across India. Robust b/s with a 3-year average RoE, RoCE of 18%, 22%, respectively

- BUY with a target price of ₹ 2680



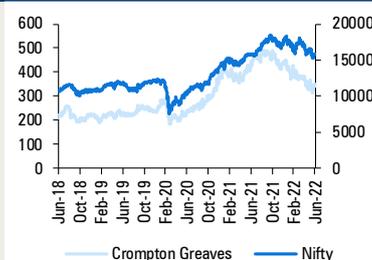
Particulars

Particular	Amount
Market cap (₹ crore)	23505.0
Total Debt (FY22) (₹ crore)	1607.5
Cash & Inves (FY22) (₹ crore)	1539.0
EV (₹ crore)	23573.5
52 Week H/L (₹)	513/312
Equity Capital (₹ crore)	126.7
Face Value(₹)	2.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	6.0	6.0	6.0	5.9	5.9
FII	40.1	41.5	40.2	38.0	37.3
DII	43.7	42.3	43.2	44.4	45.0
Others	10.2	10.2	10.7	11.7	11.8

Price Chart



Recent event & key risks

- Key Risk:** (i) Rising competition in core business segment (ii) Better than expected EBITDA margin

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (22-24E)
Net Sales	4478.9	4520.3	4803.5	5394.1	6%	7227.1	8185.5	23.2
EBITDA	584.3	599.1	720.5	769.4	9%	909.3	1086.3	18.8
EBITDA Margin (%)	13.0	13.3	15.0	14.3		12.6	13.3	
Net Profit	401.4	496.4	616.7	578.4	15%	524.5	658.2	6.7
EPS (₹)	6.4	7.9	9.8	9.2		8.4	10.5	
P/E (x)	58.6	47.4	38.1	40.6		44.8	35.7	
RoE (%)	36.6	33.8	31.9	24.0		20.5	22.6	
RoCE (%)	42.8	38.3	34.4	16.2		16.0	19.7	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong topline growth; Margin under pressure

- CGCEL's reported consolidated revenue at ~₹ 1863 crore is up by 77% led by consolidation of 'Butterfly' and a favourable base.
- Segment wise, ECD segment revenues increased by 52% YoY to ₹ 1347 crore; led by 55% and 88% revenue growth in both Fans and Appliances segments respectively (together they contribute ~80% to ECD revenues). However, pump segment grew at lower rate (I-direct estimate: 29%) due to slower demand of agri pumps. Lighting segment revenues increased by ~58% YoY to ₹ 262 crore led by 82% growth in the B2C lighting. However, demand of B2G lightings remained muted due to slow government expenditure.
- On a three year CAGR basis, CGCEL's core business revenues (i.e. excl. Butterfly) grew at CAGR of 6% led by ECD segment revenue CAGR of 8%
- Price hikes (3-5% YoY) and improved product mix helped partially offset higher raw material costs. As a result, gross margin fall was limited to 100 bps YoY. Further savings in other expenditure, restricted overall EBITDA margin fall to 10 bps YoY at 11.8%.
- Other income declined sharply by 47% YoY and interest outgo increased 2x to ~₹ 23 crore, owing to higher debt. Finally, PAT rose by ~28% YoY to ~₹ 121 crore; tracking strong topline growth

Q1FY23 Earnings Conference Call highlights

- **Market Share Gains:** CGCEL command value market share of 28% in the fan segment, which is up by 2% over last year
- **Demand Outlook:** Demand is likely to be subdued in the near term in the Lightings and Fans business due to inflation as well as increase in GST rates. The company's Pumps business continues to face challenges due to inflation in commodity prices and has not seen volume growth. With easing commodity prices, CGCEL plans to pass on the benefits to consumers in order to enhance the volume growth. The company has doubled its advertisement and promotion in Q1FY23 to ~₹ 40 crores and the same amount of advertisement expense is expected to continue for the coming quarters. CGCEL expects to see market share gains across its segments in FY23.
- **Appliances:** On the appliances front, Air Coolers segment have reported a strong revenue growth of 218% to ₹ 100 crore led by 209% volume growth. Air cooler revenues have grown at a CAGR of ~45% in the last three years
- Alternate channel contribution to company's standalone sales has increased from 9% to 12% (other than offline channel)
- **Margins:** According to the management, commodity prices started cooling off in May and effects of the same is expected to be seen in Q2FY23. Increase in input costs impacted the margins in April and May 2022, however, exit margins are coming back to FY22 levels (14%) and the company plans to sustain them. The management also commented that its structural margins have been improving month-on-month.
- **Butterfly Business:** The management commented that synergies of both the businesses are under implementation and will be reviewed from time to time. The company plans to expand further into the South region. CGCEL's long term plans for Butterfly is to maintain business growth and it has taken various initiatives under project Unnati to save operational costs. This will help in improving margins as well as enable expansion and growth.

- **Built-in Kitchen Appliances Segment:** CGCEL launched Built-in Kitchen Appliances with inauguration of 'Crompton Signature Studios'. It has a comprehensive range of 38 models across Chimneys, Gas Hobs, Built-in Ovens & Microwaves and dishwashers. CGCEL has conducted consumer research to meet unmet demands and aims to reach to the consumers through its differentiated product range. According to the management the current market size of this segment is ~₹ 2200 crore and is growing at a rate of 10% YoY. The company aims to become one of the top 3 players in this segment in the coming 3 years. It plans to use different channels such as Exclusive Branded Outlets (EBOs), Kitchen Dealers, Retail Outlets, Multi Branded Outlets (MBOs) and E-Commerce. It is planning to launch ~50 EBOs in the next 3 months. In the next few months, the company is planning to roll out its signature studios in 10 cities which include metro cities majorly and the studios are already operational in 5 out of these 10 cities. By June 2023, the company plans to launch these studios in top 300 cities and is aiming for a market share of 10% in this segment

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Havells	76,241	10428	13889	15982	18205	15	13	11	12	1040	1195	1212	1569	25	24	25	31	20	20	21	27	73	64	63	49
Crompton Greaves	23,505	4804	5394	7227	8185	15	14	13	13	617	578	524	658	34	16	16	20	32	24	20	23	38	41	45	36
Bajaj Electrical	13,495	4585	4813	5442	6152	7	5	6	7	189	124	253	339	15	14	19	22	11	8	15	17	71	108	53	40
Polycab	33,206	8792	12204	13528	15170	13	10	11	11	886	917	1003	1160	21	20	22	22	18	16	17	17	37	36	33	29
Symphony	6,492	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	61	54	36	27
V guard	9,969	2721	3498	4050	4440	11	10	9	10	202	228	235	286	24	21	24	26	17	16	18	20	49	43	42	35
Voltas	33,140	7556	7934	9708	10895	8	9	9	11	529	506	694	957	15	14	18	21	11	9	14	17	63	65	48	35

Source: BSE, ICICI Direct Research

We believe, CGCEL’s core business (i.e excluding “Butterfly”) revenue CAGR of 6% is lower than Havells cumulative growth of 15% in the ECD & lightings revenues. We believe, slower growth in lightings and pumps business have restricted CGCEL’s overall topline growth during the period. Going forward, we model CGCEL’s consolidated revenue growth of 23% over FY22-24E supported by consolidation of Butterfly and ~13% revenue CAGR of its core business. We believe, company’s core business (i.e. ECD and lighting) to grow on the back of launch of new products, increasing rural penetration and focus only on growing categories in the pump & lighting business. Under Butterfly segment, we model segment revenue CAGR of 15% FY22-24E led by market share gains and dealer expansion in new geographies. On the margin front, we build in margin recovery from FY24E onwards supported by ease in raw material prices and improved operating leverage of Butterfly. We believe, debt raised for the acquisition will result in higher interest outgo and therefore we build-in a lower PAT CAGR of 7% over FY22-24E. We maintain our Hold rating on the stock with revised target price ₹ 415/share and value the company at 40x FY24E EPS (~30% discount to Havells).

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,862.9	1,811.1	1,050.5	77.3	1,547.9	20.4	Favourable base and consolidation of Butterfly helped drive revenue growth in Q1FY23
Other Income	10.4	7.2	19.6	-46.9	22.2	-53.0	
Raw Material Exp	1,278.0	1,240.6	710.7	79.8	1,085.7	17.7	Delay in price hike drags gross margin down by ~100 bps YoY
Employee Exp	143.4	126.8	88.5	62.0	83.5	71.8	
Advertisement Exp*	45.1	43.5	25.0	80.3	35.0	28.8	Advertisement expenditure is reaching back to its normalised level
Other expenditure	176.5	181.1	101.3	74.3	114.9	53.5	
EBITDA	219.9	219.1	125.0	75.9	228.8	-3.9	
EBITDA Margin (%)	11.8	12.1	11.9	-10 bps	14.8	-297 bps	Higher raw material costs were partially offset by savings in other costs resulting a marginal drop in EBITDA margin
Depreciation	27.6	17.2	7.6	264.1	14.5	90.3	
Interest	22.5	30.6	10.1	123.5	10.6	113.4	
Excp item	6.4						
PBT	173.9	178.6	127.0	36.9	212.9	-18.3	
Tax	47.9	44.9	32.2	48.6	36.4	31.8	
PAT	121.0	133.7	94.8	27.7	176.6	-31.5	One time tax benefit in the base period resulting PAT decline in Q4
Key Metrics							
ECD	1,347.2	1,258.3	884.4	52.3	1,230.9	9.4	ECD segment revenue growth was driven by fan and appliances business which were up by 55% and 88% YoY respectively
Lighting & Products	262.3	298.9	166.1	57.9	317.0	-17.3	Revenue growth was led by strong growth in the B2C LED business by 82% YoY, however revenues from B2G segment was lower
Butterfly	253.5	253.9	NA			NA	Butterfly revenues grew 76% YoY (like for like basis) supported by new product launches and expansion of dealer networks

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	7308.2	7227.1	(1.1)	8433.1	8185.5	(2.9)	We have revised our revenue estimate downward considering slow volume offtake in the pump and lighting business (B2G category)
EBITDA	928.1	909.3	(2.0)	1113.2	1086.3	(2.4)	
EBITDA Margin %	12.7	12.6	-12bps	13.2	13.3	7bps	We have largely maintained our margin estimate for FY23E-24E, however lower than its pre-covid level margin considering higher advertisement expenses
PAT	556.9	524.5	(5.8)	691.7	658.2	(4.8)	
EPS (₹)	8.9	8.4	(5.8)	11.0	10.5	(4.8)	

Source: ICICI Direct Research

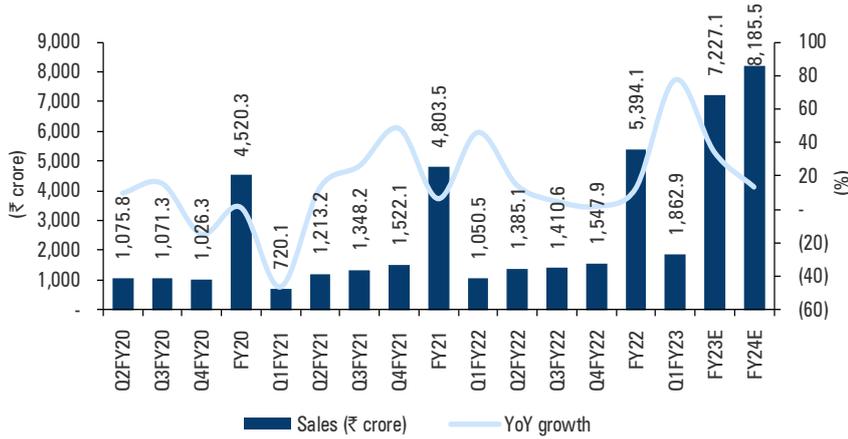
Exhibit 4: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
ECD	5.5	10.9	14.7	13.3	12.4	13.3	12.4	We believe rising proportion of premium fans in the topline and new product launches in the appliances business will help drive sales of ECD segment going forward. We build in ECD segment revenue CAGR of 13% in FY22-24E
Butterfly				11.4	18.3	20.3	18.4	We model segment revenue CAGR of 15% considering new product launches and expansion in new geography
Lighting & Products	-10.6	-7.50	3.5	12.9	12.0	12.0	15.0	Low base, price stability and improved government expenditure on street lights segment would help drive revenue of lighting business for CGCEL going forward

Source: ICICI Direct Research

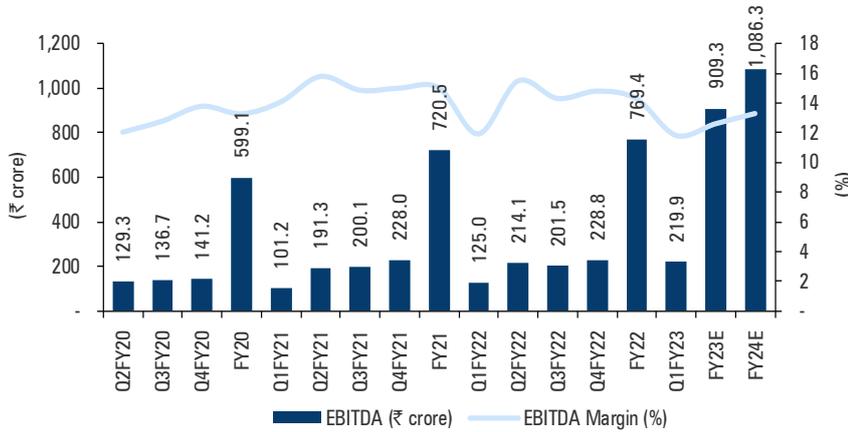
Financial story in charts

Exhibit 5: Revenue growth trend



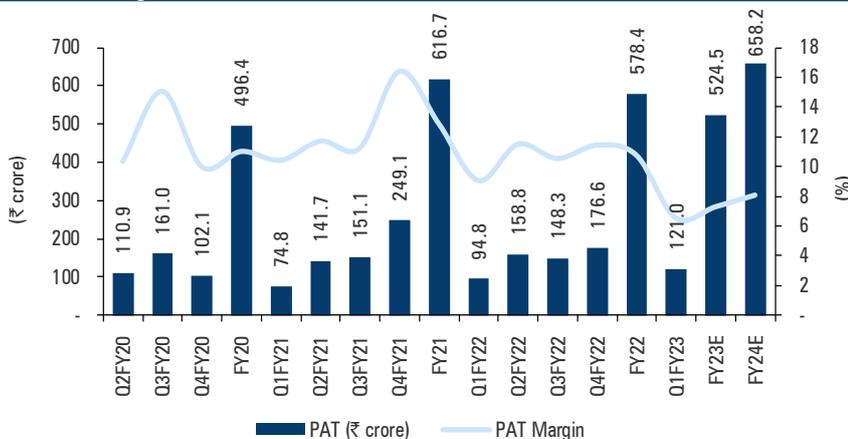
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenue	4,803.5	5,394.1	7,227.1	8,185.5
Growth (%)	6.3	12.3	34.0	13.3
Expenses				
Raw material exp	3,267.2	3,701.8	4,898.5	5,499.9
Employee exp	336.6	362.4	545.0	599.5
Other exp	397.1	463.4	637.2	701.2
Total Operating exp	4,083.0	4,624.7	6,317.8	7,099.2
EBITDA	720.5	769.4	909.3	1,086.3
Growth (%)	20.3	6.8	18.2	19.5
Depreciation	29.7	42.3	110.6	117.1
Interest	42.9	35.3	107.0	94.7
Other Income	75.8	72.7	40.4	40.3
PBT	723.6	751.5	732.2	914.9
Total Tax	107.0	173.2	186.5	229.8
Minority Interest	0.0	0.0	21.1	26.9
PAT	616.7	578.4	524.5	658.2

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	616.7	578.4	524.5	658.2
Add: Depreciation	29.7	42.3	110.6	117.1
(Inc)/dec in Current Assets	-77.6	-308.0	-1012.3	-206.5
Inc/(dec) in CL and Provisions	283.3	135.0	254.2	111.1
Others	42.9	35.3	107.0	94.7
CF from operating activities	895.0	483.0	-16.1	774.5
(Inc)/dec in Investments	-228.9	145.9	623.8	0.0
(Inc)/dec in Fixed Assets	-26.6	-1,896.9	-100.0	-80.0
Others	-6.2	362.6	-656.8	-1.7
CF from investing activities	-261.8	-1,388.4	-132.9	-81.7
Issue/(Buy back) of Equity	0.0	1.2	0.0	0.0
Inc/(dec) in loan funds	119.1	1,308.7	200.0	-460.0
Dividend paid & dividend tax	-344.7	-156.7	-125.4	-313.4
Others	148.2	63.4	-395.8	-94.7
CF from financing activities	-77.5	1,216.6	-321.1	-868.1
Net Cash flow	555.8	311.3	-470.1	-175.2
Opening Cash	48.1	603.9	915.2	445.1
Closing Cash	603.9	915.2	445.1	269.8

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	125.5	126.7	126.7	126.7
Reserve and Surplus	1,805.9	2,326.3	2,436.6	2,781.4
Total Shareholders funds	1,931.4	2,453.0	2,563.3	2,908.1
Total Debt	298.8	1,607.5	1,807.5	1,347.5
Total Liabilities	2,230.1	4,926.5	5,236.8	5,121.6
Assets				
Gross Block	226.8	2,121.5	2,221.5	2,301.5
Less: Acc Depreciation	91.3	133.5	244.1	361.2
Total Fixed Assets	146.4	2,001.0	1,990.4	1,953.4
Goodwill	779.4	1,285.5	1,285.5	1,285.5
Other investmens	0.0	0.3	660.0	660.0
Liquid Investments	769.7	623.8	0.0	0.0
Inventory	518.6	721.0	1,089.0	1,166.2
Debtors	491.2	615.4	1,049.4	1,121.3
Other CA	243.3	223.3	433.6	491.1
Cash	603.9	915.2	445.1	269.8
Total Current Assets	1,857.0	2,476.2	3,018.4	3,049.6
Creditors	864.7	1,017.8	1,326.6	1,412.8
Provisions	226.2	291.8	305.1	310.8
Other CL	296.2	212.5	144.5	163.7
Total Current Liabilities	1,387.1	1,522.1	1,776.3	1,887.4
Net current assets	469.9	954.1	1,242.1	1,162.3
Other non current assets	64.7	62.1	718.8	720.5
Total Assets	2,230.1	4,926.5	5,236.8	5,121.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	9.8	9.2	8.4	10.5
Cash EPS	10.3	9.9	10.1	12.4
BV	30.8	39.1	40.9	46.4
DPS	5.5	2.5	2.0	5.0
Operating Ratios (%)				
EBITDA Margin	15.0	14.3	12.6	13.3
PAT Margin	12.8	10.9	7.3	8.0
Asset Turnover	21.2	2.5	3.3	3.6
Inventory Days	39.4	48.8	55.0	52.0
Debtor Days	37.3	41.6	53.0	50.0
Creditor Days	65.7	68.9	67.0	63.0
Return Ratios (%)				
RoE	31.9	24.0	20.5	22.6
RoCE	34.4	16.2	16.0	19.7
RoIC	232.0	32.5	22.3	26.5
Valuation Ratios (x)				
P/E	38.0	40.5	44.7	35.6
EV / EBITDA	31.0	30.6	27.3	22.6
EV / Net Sales	4.7	4.4	3.4	3.0
Market Cap / Sales	4.9	4.3	3.2	2.9
Price to Book Value	12.1	9.6	9.1	8.1
Solvency Ratios				
Debt / Equity	0.2	0.7	0.7	0.5
Current Ratio	1.1	1.2	1.6	1.6
Quick Ratio	0.7	0.6	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	Rating	M Cap		EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	
Asian Paints (ASIPAI)	Buy	2,97,770	33.4	32.2	43.1	52.3	92.9	96.5	72.1	59.4	60.4	61.4	48.2	40.1	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9	
Berger Paints (BERPAI)	Hold	57,598	7.4	8.6	9.9	11.9	80.0	69.1	60.0	50.0	48.3	43.5	38.2	32.3	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0	
Kansai Nerolac (KANNER)	Reduce	21,718	9.8	6.9	9.7	12.1	40.9	58.0	41.4	33.4	25.8	33.4	25.8	21.3	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6	
Pidilite Industries (PIDIND)	Hold	1,18,622	22.2	23.8	26.0	32.2	105.3	98.3	90.0	72.6	70.3	64.1	59.9	48.6	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4	
Bajaj Electricals (BAJELE)	Hold	13,495	16.5	10.8	22.0	29.5	71.2	108.5	53.4	39.9	45.3	53.6	39.9	30.3	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2	
Crompton Greaves(CROGR)	Hold	23,505	9.8	9.2	8.4	10.5	38.1	40.6	44.8	35.7	31.1	30.6	27.3	22.6	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6	
Havells India (HAVIND)	Hold	76,241	16.7	19.1	19.4	25.1	73.3	63.8	62.9	48.6	47.9	42.2	42.4	33.5	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6	
Polycab India (POLI)	Buy	33,206	59.3	61.4	67.1	77.6	37.5	36.2	33.1	28.6	29.1	25.4	21.7	18.7	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7	
Symphony (SYMLIM)	Hold	6,492	15.3	17.3	26.1	34.8	60.7	53.7	35.5	26.7	45.4	39.2	27.3	20.6	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4	
V-Guard Ind (VGUARD)	Hold	9,969	4.7	5.3	5.4	6.6	49.0	43.3	42.4	34.8	31.1	29.3	27.6	22.4	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0	
Voltas Ltd (VOLTAS)	Hold	33,140	16.0	15.3	21.0	28.9	62.7	65.5	47.8	34.6	51.0	47.7	39.5	28.2	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6	
Amber Enterprises (AMBEN)	Hold	8,137	24.7	33.0	60.4	86.2	97.7	73.1	40.0	28.0	36.7	30.8	22.3	16.6	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8	
Dixon Technologies (DIXTEC)	Buy	22,375	27.3	32.1	58.6	88.6	138.2	117.6	64.3	42.5	78.1	59.4	35.9	25.3	23.5	17.7	28.0	32.4	21.7	19.1	32.1	35.0	
Supreme Indus (SUPIND)	Buy	23,081	77.0	76.2	78.8	92.7	23.6	23.8	23.1	19.6	17.4	18.2	17.4	14.3	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1	
Astral Ltd (ASTPOL)	Hold	35,215	20.3	24.4	28.8	35.1	86.3	71.8	60.9	50.0	54.0	45.9	39.2	32.7	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3	
Time Techno (TIMTEC)	Hold	2,329	4.8	8.5	10.0	12.4	21.6	12.1	10.3	8.3	7.5	6.1	5.1	4.5	8.7	11.3	12.8	14.1	5.7	9.3	10.6	11.9	

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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