

Steady show, well poised for double digit growth...

About the stock: Bharat Forge (BFL) is India's leading auto component exporter with strong engineering, technological competencies in forging and metallurgy. With total capacity of 6.83 lakh MT per annum, its products find application in domestic, exports markets across PV, CV, oil & gas, construction & mining, power, defence, etc.

- FY22 standalone segment mix – ~30% CV, ~47% Industrial, ~12% PV
- FY22 standalone export mix - ~68% America, ~29% Europe, ~3% other

Q1FY23 Results: BFL reported a steady performance in Q1FY23.

- Standalone sales were up 5.1% QoQ to ₹ 1,759 crore, tonnage, up 1% QoQ
- EBITDA was at ₹ 435 crore, with margins down 100 bps QoQ to 24.7%
- PAT was down 7% QoQ to ₹ 243.7 crore, aided by low other income
- For FY23, management commentary remained upbeat on demand prospects, revenue from new verticals (including EV, defence) & exports

What should investors do? BFL's share price has grown at ~5% CAGR over the past five years (from ~₹ 584 levels in August 2017), outperforming Nifty Auto index.

- We retain **BUY** rating, tracking multiple levels of growth namely cyclical recovery in domestic CV space, robust PV demand outlook and well charted growth trajectory in new fields namely aerospace, defence among others

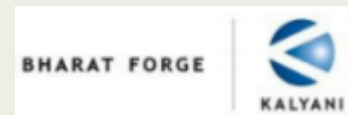
Target Price and Valuation: Revising our estimates, we now value BFL at revised target price of ₹ 900 i.e. 32x P/E on FY24E EPS (earlier target price ₹ 840).

Key triggers for future price performance:

- Expected cyclical upswing in India CV space, strong production guidance of US Class 7/8 trucks, healthy outlook for PV segment, strong aspiration to increase revenue from defence and diversifying the revenue base (EV products) to result in robust 13.5% net sales CAGR over FY22-24E
- With operating leverage at play, commodity inflation a pass through and pickup in utilisation level in foreign operations, EBITDA margins are seen improving to 19.2% by FY24E
- Consequent EBITDA, PAT is seen growing at 13%, 11% CAGR in FY22-24E, respectively

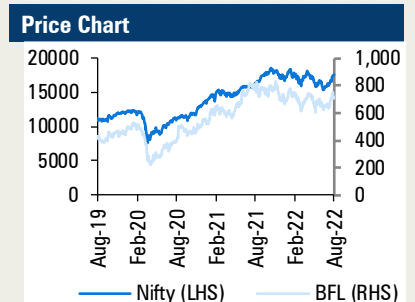
Alternate Stock Idea: Besides BFL, in our ancillary coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹1,550



Particulars	
Particular	Amount
Market Capitalization	₹ 34219 crore
Total Debt (FY22)	₹ 5655 crore
Cash and Inv. (FY22)	₹ 2511 crore
EV	₹ 37363 crore
52 week H/L (₹)	848 / 595
Equity capital	₹ 93.1 Crore
Face value	₹ 2

Shareholding pattern				
	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	44.8	44.8	45.3	45.3
FII	25.1	23.4	19.8	18.8
DII	13.3	20.0	23.6	24.3
Other	16.8	11.9	11.4	11.6



Price Chart: Nifty (LHS) and BFL (RHS) from Aug-19 to Aug-22.

Recent event & key risks

- Stable performance in Q1FY23
- **Key Risk:** (i) Lower than anticipated sales growth in the international market over FY22-24E (ii) Slower than anticipated recovery in margin profile at overseas operations

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	10,145.7	8,055.8	6,336.3	10,461.1	10.3%	12,288.2	13,470.3	13.5%
EBITDA	2,055.6	1,114.8	861.7	2,016.0	10.0%	2,071.8	2,582.3	13.2%
EBITDA Margins (%)	20.3	13.8	13.6	19.3		16.9	19.2	
Net Profit	1,032.6	349.2	(127.0)	1,077.2	9.1%	921.3	1,316.3	10.5%
EPS (₹)	22.2	7.5	(2.7)	23.1		19.8	28.3	
P/E	33.1	98.0	(269.4)	31.8		37.1	26.0	
RoNW (%)	19.1	7.8	(125.9)	15.2		12.7	16.1	
RoCE (%)	15.5	5.6	2.2	9.6		9.2	12.2	

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results:

- Standalone revenues came in at ₹ 1,759 crore (up 5.1% QoQ) amid 1% tonnage growth to 57,915 MT. Growth was led by international operations wherein revenues grew 11.5% QoQ to ₹ 1,048 crore (CV up 13.5%, PV up 13.8%, Industrial up 8.3%). Domestic revenues were down 3.7% QoQ at ₹ 690 crore (CV down 7.7%, PV down 2.3%, industrials down 5%)
- Standalone EBITDA in Q1FY23 was at ₹ 435 crore, with consequent margins at 24.7% (down 100 bps QoQ). The margin performance was positively impacted by gross margin expansion (up ~200 bps QoQ) but was offset by higher other expense (up ~295 bps QoQ). Other expenses include forex loss of ~₹ 25 crore, adjusted for which EBITDA was at ₹ 460 crore
- Reported standalone PAT was at ₹ 243.7 crore, down 7% QoQ, primarily tracking lower other income and forex loss. At the consolidated level, the company reported share of loss from subsidiaries/associates at ₹ 2.4 crore vs. loss of ₹ 10.7 crore in Q4FY22

Q1FY23 Earnings Conference Call highlights

- For Q1FY23, the management said the Indian operations secured new business worth ~ ₹ 350 crore across automotive & industrial application. For FY23, management commentary remained upbeat on demand prospects & revenue from new verticals (including EV)
- The company's new greenfield facility in North America is currently working at lower utilisation levels and consequently incurred loss of ~\$1 million/month at EBITDA level. However, the management alluded to strong uptick in volumes, going forward, from this facility and at breaking even by FY23. Further, this facility has received orders for leading Japanese, Korean, North American EV/Hybrid OEMs for drivetrain related components
- European operation continues to get impacted by high gas prices
- During Q1FY23, the company accounted for highest ever export revenue driven by PV segment. Also CV remained strong with a year backlog in US Class 7 & Class 8 trucks having almost a year booking with minimal cancellation. The management expects US Class 8 truck to reach ~3,00,000 units in CY22 vs. ~2,70,000 in CY21. Production is then expected to be flat in CY23E
- The aerospace business now accounts for 10% of topline vs. ~2% in Q1FY22 and recently added two customers for two new products with long term orders in hand
- Capex for Indian operation would be ~₹ 250 crore while for the EV business it would be ~₹ 127 crore. Capex for the US business would be ~\$75 million (starting FY24E, spread over two years) and Europe business would be ~€10-15 million

Management informed about Industrial revenue is expected to grow at double digit CAGR over next 2-3 years

In defence space company operates in 2 segments (i) armoured Vehicle (clocking ~₹200 crores of top line annually), (ii) Spares (clocking ~₹300-350 crores of revenue annually); management expects it to 3x in 3-5 years

With respect to Tork motors company will supply BMS, Traction Motors, Motor Controllers

Company completed acquisition of JS Auto on 1st July,2022 and would be consolidated from Q2FY22 onwards & would be EPS accretive from day 1. This acquisition will open entry into renewable & hydraulics space.

Peer comparison

Exhibit 1: Peer Comparison (Forging)

Company	CMP			TP Rating	Mcap ₹ crore	EBITDA margin (%)			RoE (%)			RoCE (%)			P/E (x)		
	₹	₹	₹			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Bharat Forge (BHAFOR)	750	900	Buy	34,918	19.3	16.9	19.2	15.2	12.7	16.1	9.6	9.2	12.2	32.4	37.9	26.5	
Ramkrishna Forging (RAMFOR)	186	235	Buy	2,974	22.3	22.0	22.0	18.4	17.2	19.9	12.4	14.9	17.5	15.0	13.4	9.4	
MM Forging (MMFORG)	927	1,250	Buy	2,238	18.4	19.0	20.0	19.4	22.8	23.6	11.1	14.6	16.7	20.0	13.6	10.4	

Source: Company, ICICI Direct Research

We like BFL for strong revenue growth prospects over FY22-24E amid improved outlook for CV, PV and oil & gas segments. The company continues to focus on de-risking dependence on CV and oil & gas via thrust on defence, EVs, renewable energy and aluminium businesses.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	1,759	1,666	1,372	28.3	1,674	5.1	Topline came in ahead of estimates tracking higher than anticipated QoQ growth in export revenues
Raw Material Expenses	727	728	521	39.6	725	0.3	
Employee Expenses	136	132	122	11.5	128	5.8	Employee costs came in broadly on expected lines
Other Expenses	461	389	338	36.6	390	18.4	Other expenses came in higher by 295 bps QoQ at 26.2% and included forex loss amounting to ₹ 25 crore
EBITDA	435	417	391	11.2	431	0.9	
EBITDA Margin (%)	24.7	25.0	28.5	-380 bps	25.8	-103 bps	EBOTDA margins came in marginally lower due to higher other expenses amid gross margin expansion by 200 bps vs. our anticipated of gross margin compression
Depreciation	106.4	111.7	101.9	4.4	104.2	2.1	
Interest	26.3	19.9	40.6	-35.1	40.7	-35.4	
Other Income	26	41	33	-22.1	66	-60.8	Other income came in on the lower side
PBT	325.2	326.6	220.5	47.5	349.9	-7.1	
Tax	81.5	83.3	53.9	51.4	87.9	-7.3	
Reported PAT	243.7	243.4	166.6	46.2	262.0	-7.0	PAT came in broadly in line with our estimates
Key Metrics							
Domestic revenues	690	663	442	56.1	716	-3.7	Domestic revenues were down 4% QoQ at ₹ 690 crore
Export revenues	1,048	983	916	14.4	939	11.5	Export revenues came in robust at ₹ 1048 crore

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(\$ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	12,341	12,288	-0.4	13,699	13,470	-1.7	Broadly retained topline estimates. We expect topline at the company to grow at a CAGR of 13.5% over FY22-24E
EBITDA	2,257	2,072	-8.2	2,611	2,582	-1.1	
EBITDA Margin (%)	18.3	16.9	-143 bps	19.1	19.2	11 bps	Moderated margin estimates due to near term headwinds in foreign operations amid healthy domestic operations
PAT	1,112	921	-17.2	1,396	1,316	-5.7	
EPS (₹)	24	20	-17.2	30	28	-5.7	We expect earnings at the company to grow at a CAGR of 10.5% over FY22-24E, amidst high margins in FY22

Source: ICICI Direct Research

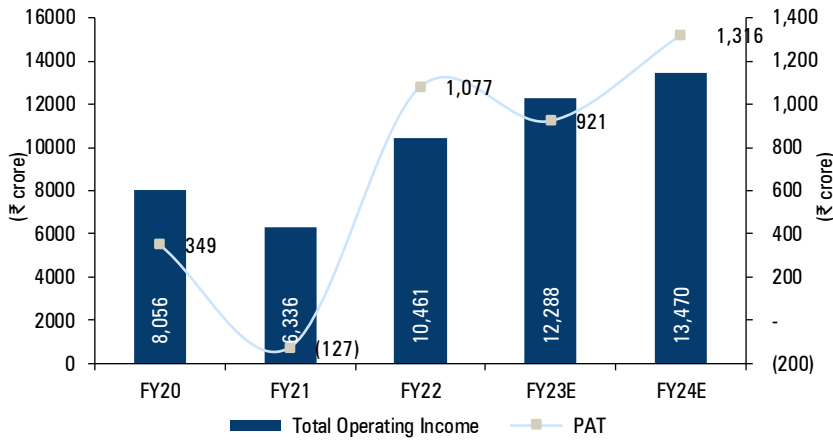
Exhibit 4: Assumptions

(\$ crore)	Current					Earlier				Comments
	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Domestic Revenues	2,227	2,627	1,782	1,639	2,500	3,001	3,602	3,060	3,672	Total revenues at the company are expected to grow at a CAGR of 13.5% over FY22-24E.
Export revenues	2,971	3,726	2,650	1,964	3,670	4,172	4,344	4,107	4,435	Domestic revenues are seen growing at a CAGR of 20% in the aforesaid period amid cyclical upswing in CV space, robust demand in PV segment and incremental robust demand outlook in the industrial segment including aerospace and defence space. On a high base, export revenues are seen growing at 8.8% CAGR
Americas (\$ mn)	296	369	265	165	336	362	369	370	399	
Europe (Euro mn)	102	125	87	78	122	141	149	134	145	
Asia Pac (\$ mn)	21	18	14	12	13	15	16	14	15	
USD/INR	68.0	70.4	70.6	73.3	74.7	79.2	80.0	76.5	76.5	
EUR/US\$	1.2	1.1	1.1	1.2	1.2	1.1	1.1	1.1	1.1	

Source: ICICI Direct Research

Financial story in charts

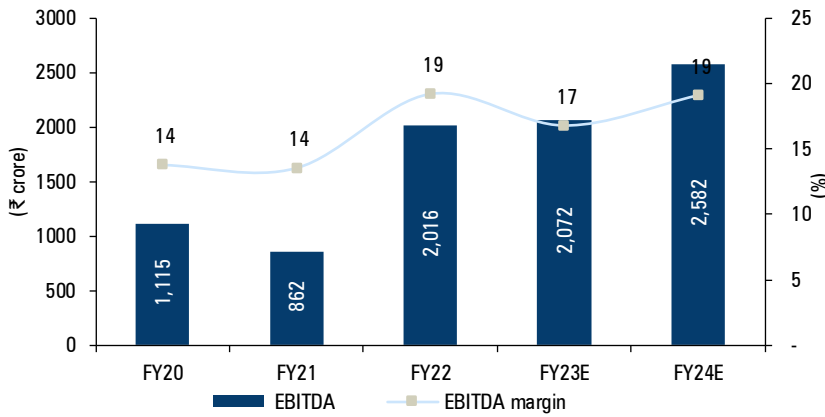
Exhibit 5: Topline trend



Source: Company, ICICI Direct Research

We expect sales to grow at a CAGR of 13.5% over FY22-24E

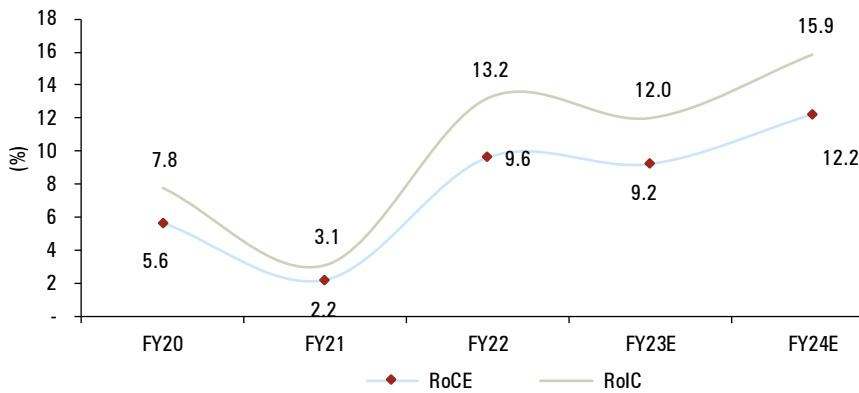
Exhibit 6: Trend in margins



Source: Company, ICICI Direct Research

Consolidated margins are seen growing to 19% by FY24E on operating leverage gains, cost controls & improved product mix.

Exhibit 7: Trend in return ratios



Source: Company, ICICI Direct Research

RoCE is seen rising to 12% by FY24E

Exhibit 8: Revenue segmentation (Q1FY23)

India Revenues (Segmental Bifurcation)						
Particulars	% Share	Q1FY23 ₹ crore	Q1FY22 ₹ crore	YoY %	Q4FY22 ₹ crore	QoQ %
Commercial Vehicles	33.9	233.8	127.1	83.9	253.2	(7.7)
Industrial	42.4	292.5	183.6	59.3	307.8	(5.0)
Passenger Vehicles	11.2	77.4	59.2	30.7	79.2	(2.3)
Others	12.4	85.8	71.9	19.3	49.3	74.0
Total	100.0	689.5	441.8	56.1	716.1	(3.7)

International Revenues (Segmental Bifurcation)						
Particulars	% Share	Q1FY23 ₹ crore	Q1FY22 ₹ crore	YoY %	Q4FY22 ₹ crore	QoQ %
Commercial Vehicles	43.7	457.6	453.8	0.8	403.2	13.5
Industrial	37.8	395.7	302.3	30.9	365.3	8.3
Passenger Vehicles	18.5	194.2	159.5	21.8	170.7	13.8
Total	100.0	1,047.5	915.6	14.4	939.2	11.5

International Revenues (Geographical Bifurcation)						
Particulars	% Share	Q1FY23 ₹ crore	Q1FY22 ₹ crore	YoY %	Q4FY22 ₹ crore	QoQ %
Americas	67.1	702.9	624.7	12.5	629.0	11.7
Europe	29.7	310.8	264.5	17.5	277.8	11.9
Rest of World	3.2	33.9	26.5	27.9	32.3	4.8
Total	100.0	1,047.5	915.6	14.4	939.2	11.5

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	8,358	30.7	16.2	8.1	46.3	21.8	17.3	14.9
FY19	10,146	21.4	22.2	37.0	33.8	18.4	19.1	15.5
FY20	8,056	-20.6	7.5	-66.2	100.0	33.8	7.8	5.6
FY21	6,336	-21.3	-2.7	NM	NA	43.4	-125.9	2.2
FY22	10,461	65.1	21.6	NM	34.7	18.9	15.2	9.6
FY23E	12,288	17.5	19.8	-8.1	37.8	18.4	12.7	9.2
FY24E	13,470	9.6	28.3	42.5	26.5	14.4	16.1	12.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total operating Income	6336.3	10461.1	12288.2	13470.3	
Growth (%)	-21.3	65.1	17.5	9.6	
Raw Material Expenses	2,634.2	4,215.9	5,283.9	5,792.2	
Employee Expenses	1,071.1	1,464.7	1,597.5	1,683.8	
Other expenses	1,769.3	2,764.5	3,335.0	3,412.0	
Total Operating Expenditure	5,474.6	8,445.1	10,216.4	10,888.1	
EBITDA	861.7	2,016.0	2,071.8	2,582.3	
Growth (%)	-22.7	134.0	2.8	24.6	
Depreciation	612.2	730.3	798.7	855.4	
Interest	107.7	160.4	190.9	169.9	
Other Income	168.9	195.9	163.5	181.0	
PBT	310.7	1,321.2	1,245.7	1,738.0	
Others	-30	-33	-8	0	
Total Tax	101.5	303.5	313.1	425.8	
PAT	-127.0	1,077.2	921.3	1,316.3	
Growth (%)	-136.4	LP	-14.5	42.9	
EPS (₹)	-2.7	23.1	19.8	28.3	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	-127.0	1077.2	921.3	1316.3	
Add: Depreciation & Interest	719.9	890.7	989.6	1025.3	
(Inc)/dec in Current Assets	-34.6	-1755.5	-823.2	-465.9	
Inc/(dec) in CL and Provisions	245.7	507.5	502.0	264.4	
CF from operating activities	804.0	719.9	1589.7	2140.1	
(Inc)/dec in Investments	-1011.1	169.2	200.0	-200.0	
(Inc)/dec in Fixed Assets	-1122.3	-1056.6	-965.0	-650.0	
Others	365.5	-303.7	-129.1	-51.8	
CF from investing activities	-1767.9	-1191.1	-894.1	-901.8	
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0	
Inc/(dec) in loan funds	647.0	659.1	-200.0	-600.0	
Dividend paid & dividend tax	-93.1	-325.9	-279.3	-419.0	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	307.6	268.2	-190.9	-169.9	
CF from financing activities	861.5	601.4	-670.3	-1188.9	
Net Cash flow	-102.3	130.2	25.3	49.4	
Opening Cash	575.1	472.8	603.0	628.3	
Closing Cash	472.8	603.0	628.3	677.7	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	93.1	93.1	93.1	93.1	
Reserve and Surplus	5,353.7	6,533.6	7,175.5	8,072.8	
Total Shareholders funds	5,446.8	6,626.7	7,268.7	8,165.9	
Total Debt	4,995.4	5,654.5	5,454.5	4,854.5	
Deferred Tax Liability	234.6	288.9	288.9	288.9	
Minority Interest / Others	761.6	791.7	791.7	791.7	
Total Liabilities	11,438.4	13,361.9	13,803.8	14,101.1	
Assets					
Gross Block	10,924.7	11,756.6	12,971.6	13,871.6	
Less: Acc Depreciation	6,207.3	6,937.5	7,736.3	8,591.6	
Net Block	4,717.4	4,819.1	5,235.3	5,280.0	
Capital WIP	900.1	1,124.8	874.8	624.8	
Total Fixed Assets	5,617.5	5,943.8	6,110.1	5,904.7	
Investments	2,639.4	2,654.7	2,554.7	2,854.7	
Inventory	1,793.9	2,710.5	3,198.3	3,506.0	
Debtors	1,409.6	2,162.3	2,525.0	2,767.9	
Loans and Advances	2.8	16.7	19.6	21.5	
Other Current Assets	458.1	530.5	500.3	413.7	
Cash	472.8	603.0	628.3	677.7	
Total Current Assets	4,137.2	6,022.9	6,871.4	7,386.7	
Creditors	1,206.8	1,631.4	2,020.0	2,214.3	
Provisions	108.3	91.6	113.5	124.4	
Other Current Liabilities	424.4	524.0	615.5	674.8	
Total Current Liabilities	1,739.5	2,247.0	2,749.0	3,013.4	
Net Current Assets	2,397.7	3,775.9	4,122.4	4,373.2	
Other non-current assets	783.8	987.5	1,016.6	968.5	
Application of Funds	11,438.4	13,361.9	13,803.8	14,101.1	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-2.7	23.1	19.8	28.3
Cash EPS	10.4	38.8	36.9	46.6
BV	117.0	142.3	156.1	175.4
DPS	2.0	7.0	6.0	9.0
Cash Per Share	54.8	53.9	50.2	55.5
Operating Ratios				
EBITDA Margin (%)	13.6	19.3	16.9	19.2
PBT / Net sales (%)	3.9	12.3	10.4	12.8
PAT Margin (%)	-2.0	10.3	7.5	0.0
Inventory days	103.3	94.6	95.0	95.0
Debtor days	81.2	75.4	75.0	75.0
Creditor days	69.5	56.9	60.0	60.0
Return Ratios (%)				
RoCE	2.2	9.6	9.2	12.2
RoE	-125.9	15.2	12.7	16.1
RoC	3.1	13.2	12.0	15.9
Valuation Ratios (x)				
P/E	NM	34.7	37.8	26.5
EV / EBITDA	43.4	18.9	18.4	14.4
EV / Net Sales	5.9	3.6	3.1	2.8
Market Cap / Sales	5.5	3.3	2.8	2.6
Price to Book Value	6.4	5.3	4.8	4.3
Solvency Ratios				
Debt/EBITDA	5.8	2.8	2.6	1.9
Debt / Equity	0.9	0.9	0.8	0.6
Current Ratio	2.1	2.4	2.3	2.2
Quick Ratio	1.1	1.2	1.1	1.1

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	234	230	Buy	14,838	10.1	12.7	19.4	23.2	18.4	12.0	7.5	6.6	5.0	6.3	7.3	10.3	5.4	6.6	9.4
Ashok Leyland (ASHLEY)	146	180	Buy	42,706	1.8	1.7	4.8	79.0	85.3	30.6	44.1	26.9	15.2	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	4,031	4,180	Hold	1,16,651	173.4	218.4	247.2	23.2	18.5	16.3	18.1	13.5	11.7	18.4	27.1	29.3	17.6	24.5	26.3
Balkrishna Ind. (BALIND)	2,171	2,550	Buy	41,971	73.0	65.3	98.3	29.8	33.2	22.1	22.1	23.1	15.2	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	750	900	Buy	34,918	23.1	19.8	28.3	32.4	37.9	26.5	18.9	18.4	14.4	9.6	9.2	12.2	15.2	12.7	16.1
Eicher Motors (EICMOT)	3,155	3,650	Buy	86,226	61.3	99.0	120.2	51.4	31.9	26.3	35.8	22.4	18.3	13.3	19.6	20.5	13.3	18.7	19.7
Escorts Kubota (ESCORT)	1,688	1,650	Hold	22,267	55.8	56.4	71.9	30.2	29.9	23.5	18.3	18.6	14.5	10.4	8.8	10.1	9.3	8.7	10.2
Hero Moto (HERHON)	2,785	2,495	Hold	55,622	123.8	156.1	176.3	22.5	17.8	15.8	14.1	11.0	9.7	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	1,266	1,550	Buy	1,57,333	41.4	48.7	60.6	30.6	26.0	20.9	21.6	17.3	13.7	9.3	11.4	13.9	13.1	13.5	14.9
Maruti Suzuki (MARUTI)	8,818	10,000	Buy	2,66,374	124.7	236.8	333.3	70.7	37.2	26.5	39.7	22.3	16.1	5.1	11.5	15.2	7.0	12.1	15.3
Uno Minda (MININD)	564	650	Buy	32,238	6.2	10.0	13.6	90.6	56.2	41.5	37.1	28.5	22.7	10.2	13.4	16.9	10.3	14.5	16.7
Tata Motors (TATMOT)	477	530	Buy	1,82,509	-29.9	-9.5	17.9	-16.0	-49.9	26.6	7.6	6.3	4.7	4.8	8.2	14.5	-23.5	-8.1	13.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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