

## Strong performance, double digit growth lies ahead...

**About the stock:** Maruti Suzuki (MSIL) is the market leader in the domestic passenger vehicle (PV) space with market share pegged at ~43.4% and popular models being Alto, WagonR, Swift, Brezza, Baleno, Ertiga, etc., among others.

- Market leader in each sub-segment - cars (63.6%), UV (19.5%), vans (95.7%)
- Strong b/s; ~₹ 42,000 crore cash and investment on books as of FY22

**Q2FY23 Results:** The company posted a robust performance in Q2FY23.

- Total operating income came in at ₹ 29,931 crore, up 12.9% QoQ
- EBITDA margins in Q2FY23 were at 9.3%, up 204 bps QoQ
- Consequent PAT was at ₹ 2,062 crore ~2x QoQ. PAT performance was driven by higher operating margins as well as higher other income

**What should investors do?** MSIL's stock price has grown at ~2.2% CAGR from ~₹ 8,114 levels in October 2017, broadly in tandem to Nifty Auto index in this time.

- We retain our **BUY** rating tracking industry tailwinds of underpenetrated PV segment domestically, benign RM price outlook and robust order book

**Target Price and Valuation:** Upgrading our estimates, we now value MSIL at ₹ 11,200 i.e., 32x P/E on FY24E EPS of ₹ 350/share (earlier target price ₹ 10,000).

**Key triggers for future price performance:**

- Robust demand in SUV space aided by model refreshes, bookings for higher end models and sequential uptick in ASPs. We build 24.7% sales CAGR for FY22-24E. Volume CAGR built in at 16.6% over FY22-24E
- Leadership position in the CNG space with CNG penetration now at >20% of sales volume. Maiden strong hybrid offering in Grand Vitara
- New product launch pipeline along with robust order backlog of >4 lakh units of which ~130,000 vehicle pre-bookings are for recently launched models. Going forward, we expect outperformance from UV portfolio
- Incremental capacity expansion at Manesar (~1 lakh units) & greenfield capex under execution for a new plant in the state of Haryana scheduled to be operational by Q1CY25E (first phase capacity pegged at ~2.5 lakh units)

**Alternate Stock Idea:** Apart from MSIL, in our OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



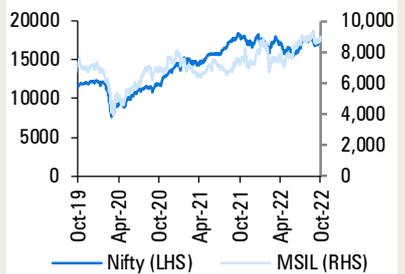
### Particulars

Particular	₹ crore
Market Capitalization	2,86,976
Total Debt (FY22)	382
Cash & Invts. (FY22)	42,090
EV	2,45,268
52 week H/L (₹)	9550 / 6537
Equity capital	₹ 151 Crore
Face value	₹ 5

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	56.4	56.4	56.4	56.4
FII	23.6	22.6	21.9	21.8
DII	15.3	16.3	18.0	18.1
Other	4.7	4.8	3.7	3.7

### Price Chart



### Recent event & key risks

- Robust performance in Q2FY23
- **Key Risk:** (i) Slower than expected uptick in sales volumes over FY22-24E (ii) Slower than anticipated uptick in operating margin profile, going forward

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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)
Total Operating Income	86,020.3	75,610.6	70,332.5	88,295.6	5.4%	1,17,034.2	1,37,370.2	24.7%
EBITDA	10,999.3	7,302.6	5,345.3	5,701.2	-11.2%	10,474.7	14,459.2	59.3%
EBITDA Margins (%)	12.8	9.7	7.6	6.5		9.0	10.5	
Net Profit	7,500.6	5,650.6	4,229.7	3,766.3	-12.5%	7,096.2	10,578.3	67.6%
EPS (₹)	248.3	187.1	140.0	124.7		234.9	350.2	
P/E	38.3	50.8	67.8	76.2		40.4	27.1	
RoNW (%)	16.3	11.7	8.2	7.0		12.0	16.0	
RoIC (%)	68.6	26.8	24.2	24.5		65.5	105.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results:

- Total operating income for the quarter was at ₹ 29,931 up 12.9% QoQ. Q2FY23 volumes were at 5.2 lakh units, up 10.6% QoQ. Of this, domestic volumes grew 14% QoQ to 4.5 lakh units while exports volumes were down 9% QoQ at 0.6 lakh units. Average selling price (ASP) came in at ₹ 5.52 lakh/unit, up 2.1% QoQ
- Margins surprised positively this time, up ~204 bps QoQ to 9.3%. Gross margins expanded 150 bps QoQ while employee costs were down by ~59 bps. Other expenses witnessed a marginal rise tracking higher A&P spend
- Consequent PAT in Q2FY23 came in at ₹ 2,062 crore, ~2x QoQ. PAT performance was driven by higher operating margins & higher other income

### Q2FY23 Earnings Conference Call highlights

- During the quarter company celebrated 40 years of celebration in India and laid foundational stone for EV facility in Gujarat and upcoming facility in Haryana. The company sold highest ever cars quarterly during Q2FY23
- The management said ~35,000 units production lost due to chip shortage in Q2FY23 vs. ~51,000 lost in Q1FY23. MSIL is trying to source chip from alternate suppliers to offset production loss
- Rise in realisation was largely due to bookings for higher end models for new launches, price hike taken during Q1FY23, refreshed Alto K10 despite higher share of passenger cars and muted exports during the quarter
- Grand Vitara has received ~75,000 bookings during Q2FY23 of which >35% is for strong hybrid model
- The company continues to witness strong order book of ~4.1 lakh units as on Q2FY23. With respect to launch of recent products they received ~1.3 lakh bookings
- The company has total production capacity of 22.5 lakh units including Gujarat facility & production in Karnataka (at Toyota's facility for Grand Vitara) would be over and above capacity. Also, the company would start new Haryana plant in Q1CY25E with additional capacity of 2.5 lakh units and can also extend capacity by 1 lakh units in its Manesar plant. Further management does not plan to shut production in its Gurugram plant
- Rise in other expense was due to higher advertising & marketing expense incurred during new launches and ongoing festive season
- The management said CNG demand remained strong in the PV space despite recent run-up in gas prices while it did taper in the CV domain
- Industry expectations are for 3.8 million unit sales volume in FY23E

Volume at Gujarat plant was at 31% of total output at ~1.6 lakh units

Export revenue were at ₹ 3,400 crore during Q1FY23 vs. ₹ 3,640 crore in Q1FY23

Average discount per car was at ~₹ 13,840 during Q2FY23 vs. ~₹ 12,740 in Q1FY23 & ~₹ 18,000 during Q2FY22

CNG portfolio continues to expand at the company and now forms >20% of total sales. Out of pending order book CNG portfolio received ~1.3-1.4 lakh bookings

Royalty for Q2FY23 was at ~3.8% of sales vs. ~3.5% in Q1FY23

Out of total Ertiga sales ~two-third are comprised by CNG with Dzire CNG contributing ~35% of total Dzire sales

Gains arising from INR/JPY appreciation were at ~₹ 158 crore i.e. 0.5% of sales in Q2FY23

RM price outlook for Q3FY23 is still benign. However, the management do expect a marginal uptick in Q4FY23

## Peer comparison

Exhibit 1: ICICI Direct coverage universe (4-W OEMs)

Company	CMP	TP	Rating	Mcap	Total lakh volumes			EBITDA margin (%)			RoCE (%)			P/E		
	₹	₹		₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Maruti Suzuki (MARUTI)	9,500	11,200	Buy	2,86,976	16.5	20.0	22.5	6.4	9.0	10.5	5.1	12.5	16.7	76.2	40.4	27.1
Tata Motors (TATMOT)	410	530	Buy	1,57,066	3.7	4.8	5.2	12.2	12.3	14.1	4.8	8.2	14.5	(13.7)	(43.0)	22.9
M&M (MAHMAH)	1,314	1,590	Buy	1,63,350	4.7	6.5	7.2	12.3	11.5	12.7	9.3	11.4	13.9	31.8	27.0	21.7

Source: Company, ICICI Direct Research

Note – There are no directly comparable listed companies in pure-play PVs. Tata Motors, M&M volumes above are for India PV & automotive businesses, respectively.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY23 (Chg %)	Q1FY23	QoQ (Chg %)	Comments	
Total Operating Income	29,931	29,831	20,539	45.7	26,500	12.9	Topline came in line with our estimates
Raw Material Expenses	21,880	22,146	15,577	40.5	19,770	10.7	RM costs were contained at 73.1%, down 150 bps QoQ. The company benefited from a drop in key commodity prices as well as INR/JPY appreciation
Employee Expenses	1,133	1,210	962	17.7	1,158	-2.2	
Other expenses	4,149	3,985	3,145	31.9	3,659	13.4	Other expenses came in a tad higher at 13.9% due to higher advertisement and promotion expense amidst new model launches
Operating Profit (EBITDA)	2,769	2,490	855	223.9	1,912	44.8	
EBITDA Margin (%)	9.3	8.3	4.2	509 bps	7.2	204 bps	EBITDA margins came in ahead of estimates at 9.3%, up 204 bps QoQ primarily tracking more than anticipated drop in RM costs
Other Income	613	325	523	17.2	89	592.1	Other income came in much higher than estimates
Depreciation	723	663	756	-4.4	651	10.9	
Interest	31	29	23	35.6	27	11.3	Interest costs were on expected lines
Total Tax	566.8	467.3	123.7	358.2	309.0	83.4	
PAT	2,062	1,657	475	333.7	1,013	103.5	PAT came in higher than estimates tracking the beat on margin profile
EPS	68.2	54.8	15.7	333.7	33.5	103.5	
<b>Key Metrics</b>							
ASP (₹)	551,677	550,155	508,451	8.5	540,385	2.1	ASPs were broadly on expected lines and were up 2% QoQ at ₹ 5.52 lakh/unit
Discounts (₹)	13,840	12,500	18,570	-25.5	12,750	8.5	QoQ higher discounts has a seasonality factor

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Income	116,983	117,034	0.0	136,704	137,370	0.5	Broadly retain topline estimates. We expect topline at the company to grow at a CAGR of 25% over FY22-24E
EBITDA	9,895	10,475	5.9	13,355	14,459	8.3	
EBITDA Margin (%)	8.5	9.0	49 bps	9.8	10.5	76 bps	Upgrade margin estimates tracking upbeat performance in Q2FY23
PAT	7,154.3	7,096	-0.8	10,068	10,578	5.1	
EPS (₹)	236.8	235	-0.8	333	350	5.1	Earnings estimates undergo a minor change. We expect earnings at the company to grow at a CAGR of 68% over FY22-24E, albeit on a lower base

Source: ICICI Direct Research

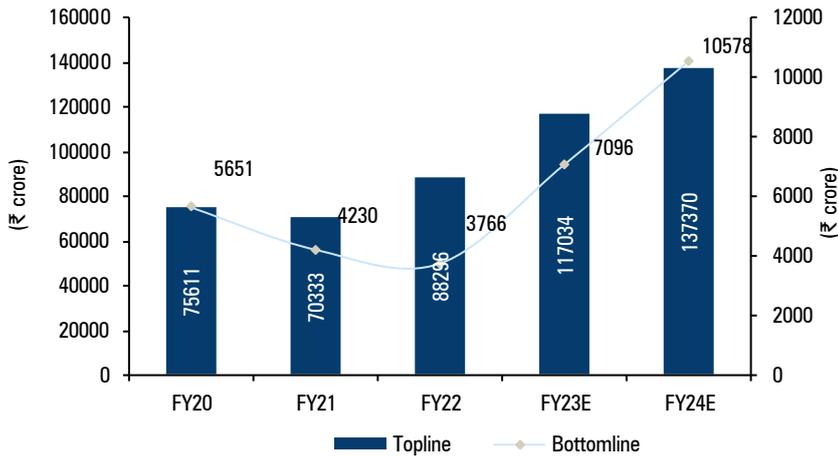
Exhibit 4: Assumptions

	Current				Earlier				Comments	
	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E		FY24E
Total Volumes (lakh units)	17.8	18.6	15.6	14.6	16.5	20.0	22.5	19.8	22.2	Marginally upgrade our volume estimates tracking upbeat management commentary on demand prospects and record pending order book at the company amounting to 4.1 lakh units (as of September 2022 end). We expect total sales volumes at the company to grow at a CAGR of 16.6% to 22.5 lakh units by FY24E (near peak utilisation levels)
Average ASPs (₹ lakh/unit)	4.39	4.46	4.59	4.57	5.07	5.58	5.83	5.65	5.88	
RMC/Unit (₹ lakh/unit)	3.09	3.24	3.45	3.49	4.00	4.29	4.43	4.39	4.53	
Discount (₹/unit)	15,895	18,334	23,688	19,771	14,700	12,898	12,500	12,563	12,500	

Source: ICICI Direct Research

## Financial story in charts

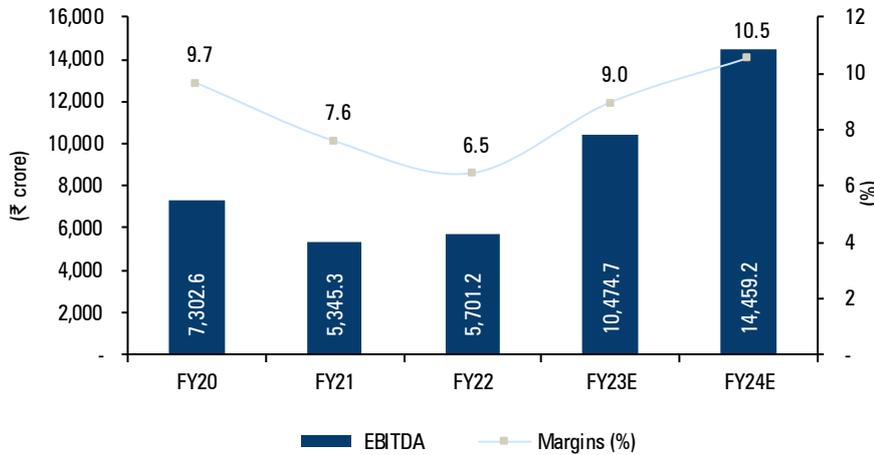
Exhibit 5: Trend in topline and bottomline



Source: Company, ICICI Direct Research

We expect net sales to grow at 24.7% CAGR over FY22-24E on the back of 16.6% volume CAGR. PAT is expected to grow at 67.6% CAGR in the aforesaid period to ₹10,578 crore by FY24E (on a low base).

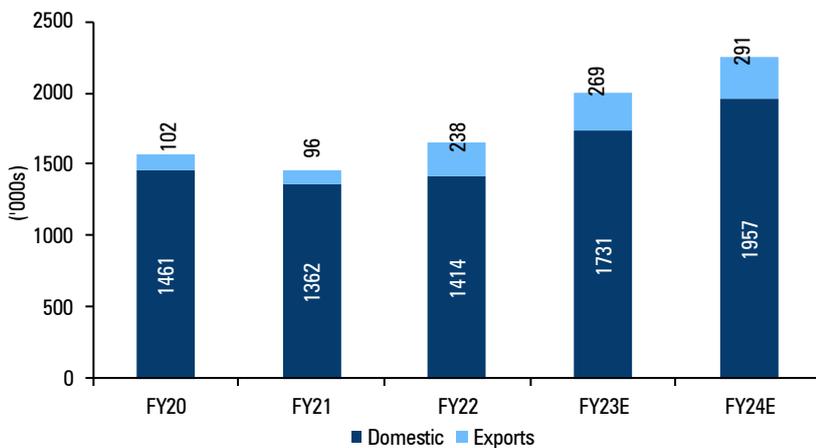
Exhibit 6: Trend in margins



Source: Company, ICICI Direct Research

With benign raw material price outlook and operating leverage at play margin trajectory at MSIL is seen inching up to 10.5% by FY24E vs. 6.5% in FY22

Exhibit 7: Domestic vs. exports volume trend



Source: Company, ICICI Direct Research

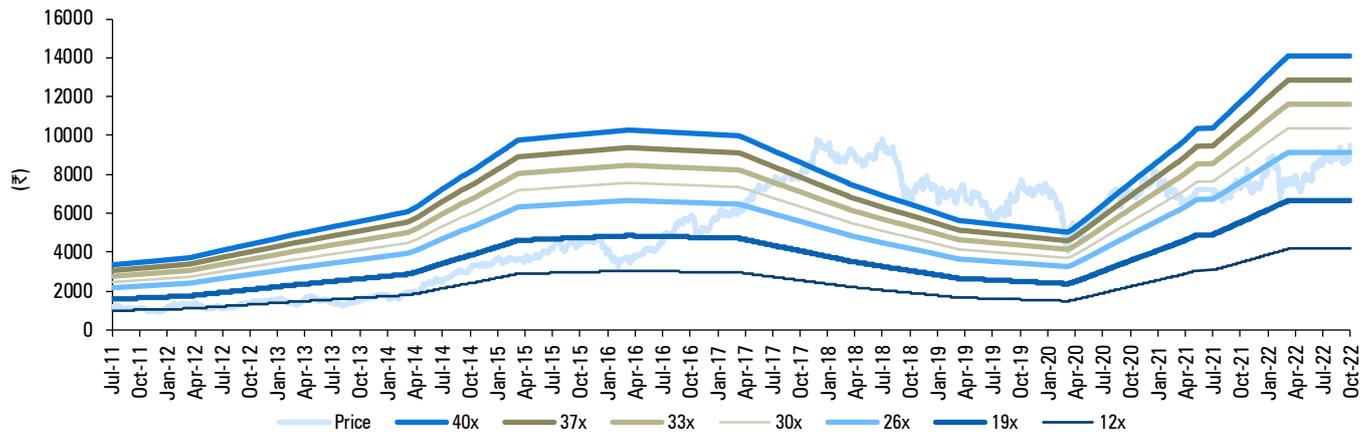
Exports are seen forming ~13-14% of FY24E volumes. They have grown remarkably well and is up >2x in FY22 vs. FY21

Exhibit 8: Valuation summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	79,763	17.2	256	5.2	37.2	21.0	18.5	21.1
FY19	86,020	7.8	248	(2.9)	38.3	22.9	16.3	16.3
FY20	75,611	(12.1)	187	(24.7)	50.8	34.4	11.7	7.4
FY21	70,333	(7.0)	140	(25.1)	67.8	45.6	8.2	4.3
FY22	88,296	25.5	125	(11.0)	76.2	43.0	7.0	5.1
FY23E	1,17,034	32.5	235	88.4	40.4	23.2	12.0	12.5
FY24E	1,37,370	17.4	350	49.1	27.1	16.4	16.0	16.7

Source: Company, ICICI Direct Research

Exhibit 9: MSIL currently trades at ~27x PE on FY24E EPS



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>70,333</b>	<b>88,296</b>	<b>1,17,034</b>	<b>1,37,370</b>
Growth (%)	-7.0	25.5	32.5	17.4
Raw Material Expenses	50,817	66,037	85,762	99,513
Employee Expenses	3,403	4,022	4,604	5,047
Other expenses	10,767	12,535	16,193	18,351
Total Operating Expenditure	64,987	82,594	1,06,559	1,22,911
<b>EBITDA</b>	<b>5345.3</b>	<b>5701.2</b>	<b>10474.7</b>	<b>14459.2</b>
Growth (%)	-27	7	84	38
Depreciation	3,032	2,787	2,809	3,022
Interest	101	126	113	102
Other Income	2,946	1,794	1,554	2,227
PBT	5,159	4,582	9,106	13,562
Total Tax	930	816	2,010	2,984
Tax Rate (%)	18.0	17.8	22.1	22.0
<b>PAT</b>	<b>4229.7</b>	<b>3766.3</b>	<b>7096.2</b>	<b>10578.3</b>
Growth (%)	-25.1	-11.0	88.4	49.1
<b>EPS (₹)</b>	<b>140.0</b>	<b>124.7</b>	<b>234.9</b>	<b>350.2</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>4,230</b>	<b>3,766</b>	<b>7,096</b>	<b>10,578</b>
Add: Depreciation	3,032	2,787	2,809	3,022
Sub: Other Income	2,946	1,794	1,554	2,227
(Inc)/dec in Current Assets	113	-3,113	-2,411	-2,189
Inc/(dec) in CL and Provisions	4,429	1,014	5,291	3,809
Others	101	126	113	102
<b>CF from operating activities</b>	<b>8957.9</b>	<b>2785.9</b>	<b>11344.7</b>	<b>13095.8</b>
(Inc)/dec in Investments	-4,762	1,516	-2,500	-5,200
(Inc)/dec in Fixed Assets	-2,360	-2,986	-7,500	-6,000
Others	-749	-1,830	-310	-310
Add: Other income	2,946	1,794	1,554	2,227
<b>CF from investing activities</b>	<b>-4924.4</b>	<b>-1506.2</b>	<b>-8756.3</b>	<b>-9283.2</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	383	-107	-100	-100
Dividend paid & dividend tax	-1,359	-1,812	-2,266	-3,323
Others	-41	640	-113	-102
<b>CF from financing activities</b>	<b>-1018.3</b>	<b>-1279.9</b>	<b>-2478.9</b>	<b>-3524.9</b>
Net Cash flow	3,015	0	109	288
Opening Cash	21	3,036	3,036	3,146
<b>Closing Cash</b>	<b>3036.4</b>	<b>3036.2</b>	<b>3145.6</b>	<b>3433.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	151	151	151	151
Reserve and Surplus	51,216	53,935	58,766	66,021
<b>Total Shareholders funds</b>	<b>51366.8</b>	<b>54086.0</b>	<b>58916.6</b>	<b>66172.0</b>
Total Debt	489	382	282	182
Deferred Tax Liability	385	0	0	0
Others Liabilities	2,209	2,295	2,335	2,375
<b>Total Liabilities</b>	<b>54449.5</b>	<b>56762.5</b>	<b>61533.1</b>	<b>68728.5</b>
<b>Assets</b>				
Gross Block	32,896	34,435	39,574	43,074
Less: Acc Depreciation	17,641	20,428	23,236	26,258
<b>Net Block</b>	<b>15254.5</b>	<b>14007.6</b>	<b>16337.9</b>	<b>16815.7</b>
Capital WIP	1,192	2,639	5,000	7,500
Total Fixed Assets	16,447	16,647	21,338	24,316
<b>Investments</b>	<b>41786.7</b>	<b>40763.3</b>	<b>43513.3</b>	<b>48963.3</b>
Inventory	3,050	3,533	3,848	4,516
Debtors	1,277	2,030	3,206	3,764
Loans and Advances	23	31	40	47
Other Current Assets	2,725	4,594	5,504	6,461
<b>Cash</b>	<b>3036.4</b>	<b>3036.2</b>	<b>3145.6</b>	<b>3433.4</b>
Total Current Assets	10,111	13,224	15,744	18,221
Creditors	10,162	9,761	12,826	15,054
Provisions	742	861	1,132	1,328
Other current Liabilities	4,715	6,010	7,965	9,350
Total Current Liabilities	15,618	16,632	21,923	25,732
<b>Net Current Assets</b>	<b>-5506.9</b>	<b>-3407.8</b>	<b>-6178.5</b>	<b>-7510.9</b>
Other Assets	1,723	2,760	2,860	2,960
<b>Application of Funds</b>	<b>54449.5</b>	<b>56762.5</b>	<b>61533.1</b>	<b>68728.5</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	140.0	124.7	234.9	350.2
Cash EPS	240.4	216.9	327.9	450.2
BV	1,700.4	1,790.5	1,950.4	2,190.5
DPS	45.0	60.0	75.0	110.0
Cash Per Share	1,443.6	1,393.3	1,479.7	1,661.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	7.6	6.5	9.0	10.5
PBIT / Net sales (%)	3.3	3.3	6.6	8.3
PAT Margin (%)	6.0	4.3	6.1	7.7
Inventory days	15.8	14.6	12.0	12.0
Debtor days	6.6	8.4	10.0	10.0
Creditor days	52.7	40.4	40.0	40.0
<b>Return Ratios (%)</b>				
RoE	8.2	7.0	12.0	16.0
RoCE	4.3	5.1	12.5	16.7
RoIC	24.2	24.5	65.5	105.0
<b>Valuation Ratios (x)</b>				
P/E	67.8	76.2	40.4	27.1
EV / EBITDA	45.6	43.0	23.2	16.4
EV / Net Sales	3.5	2.8	2.1	1.7
Market Cap / Sales	4.1	3.3	2.5	2.1
Price to Book Value	5.6	5.3	4.9	4.3
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.6	1.0	0.9	0.9
<b>Quick Ratio</b>	<b>0.4</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>

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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyre (APOTYR)	288	335	Buy	18,289	10.1	16.5	25.0	28.6	17.4	11.5	8.9	6.9	5.2	6.3	9.4	13.0	5.4	8.4	11.7
Ashok Leyland (ASHLEY)	149	180	Buy	43,614	1.8	1.7	4.8	80.7	87.2	31.2	45.0	27.4	15.6	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	3,674	3,910	Hold	1,06,315	173.4	200.2	232.2	21.2	18.4	15.8	16.2	13.4	11.4	18.4	24.7	28.0	17.6	22.6	25.4
Balkrishna Ind. (BALIND)	1,945	2,550	Buy	37,600	73.0	65.3	98.3	26.7	29.8	19.8	19.9	20.8	13.7	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	832	900	Buy	38,712	23.1	19.8	28.3	35.9	42.0	29.4	20.8	20.2	15.9	9.6	9.2	12.2	15.2	12.7	16.1
Eicher Motors (EICMOT)	3,745	4,170	Buy	1,02,351	61.3	101.8	122.0	61.1	36.8	30.7	43.2	26.2	22.0	13.3	20.4	20.9	13.3	19.3	20.1
Escorts Kubota (ESCORT)	1,997	2,390	Buy	26,346	58.0	56.3	70.6	34.4	35.5	28.3	22.6	23.2	18.2	10.4	8.8	10.1	9.7	8.7	10.0
Hero Moto (HERHON)	2,651	2,870	Hold	52,945	123.8	132.3	168.2	21.4	20.0	15.8	13.2	11.5	9.6	16.3	18.7	21.8	15.7	16.1	19.4
M&M (MAHMAH)	1,314	1,590	Buy	1,63,350	41.4	48.7	60.6	31.8	27.0	21.7	22.5	18.0	14.2	9.3	11.4	13.9	13.1	13.5	14.9
<b>Maruti Suzuki (MARUTI)</b>	<b>9,500</b>	<b>11,200</b>	<b>Buy</b>	<b>2,86,976</b>	<b>124.7</b>	<b>234.9</b>	<b>350.2</b>	<b>76.2</b>	<b>40.4</b>	<b>27.1</b>	<b>43.0</b>	<b>23.2</b>	<b>16.4</b>	<b>5.1</b>	<b>12.5</b>	<b>16.7</b>	<b>7.0</b>	<b>12.0</b>	<b>16.0</b>
Uno Minda (MININD)	532	650	Buy	30,417	6.2	10.0	13.6	85.5	53.1	39.1	35.0	26.9	21.4	10.2	13.4	16.9	10.3	14.5	16.7
Tata Motors (TATMOT)	410	530	Buy	1,57,066	-29.9	-9.5	17.9	-13.7	-43.0	22.9	6.9	5.7	4.2	4.8	8.2	14.5	-23.5	-8.1	13.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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