

## Splendid volume growth; margins to recover in CY23

**About the stock** Nestlé India (NIL) is the largest food company in India with over ₹ 14000 crore of sales. It is broadly present in infant & baby food products, noodles, chocolates & beverage categories. In the last five years, the company has forayed into newer categories and launched more than 100 new products.

- The company has nine manufacturing facilities including newly commissioned plant in Sanand, Gujarat. Its major brands include Maggi, Nescafe, KitKat, Cerelac among others

**Q3CY22 Results:** Nestlé India reported strong sales growth and a dip in margins.

- Sales were up 18.2% YoY led by mix of price hike & volume growth
- EBITDA was at ₹ 1010.7 crore, up 6.6% YoY with margins at 22%
- PAT was at ₹ 668.3 crore (up 8.2% YoY) impacted by margin contraction

**What should investors do?** Nestlé India's share price has given return of 176% in the last five years (from ₹ 7170 in October 2017 to ₹ 19800 in October 2022).

- We slightly increase our revenue & earnings estimates for CY22-24 on the back of expected volume recovery with softening of RM costs
- We continue to maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 22400, valuing the business 65x CY24 earnings

**Key triggers for future price performance:**

- The company is undertaking a capex of ₹ 2600 crore in the next three to four years to expand the capacity of its existing products
- NIL is increasing its rural footprint from 80,000 villages to 1.2 lakh villages in the next three years
- With the softening of commodity prices, the packaged foods category & in turn NIL is expected to witness strong volume growth. Further margins are expected to inch up to above 24% in CY23 and CY24
- Acquisition of pet-food brand PURINA & introduction of global brand 'GERBER' in the nutrition segment would increase the addressable market in the premium food space

**Alternate Stock Idea:** We like Tata Consumer Products in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampaan & Souful in India market is expected to drive sales and margins
- We value the stock at ₹ 950 on ascribing 55x FY24 earnings multiple



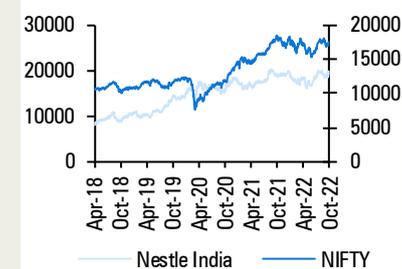
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	190912
Total Debt (CY21)	217.7
Cash & Investments (CY21)	798.7
EV	1,90,330.6
52 week H/L (₹)	20200 / 17446
Equity capital	96.4
Face value (₹)	10.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	62.8	62.8	62.8	62.8
FII	12.3	12.4	12.0	11.7
DII	8.0	7.9	8.6	9.1
Others	16.9	17.0	16.6	16.5

### Price Chart



### Recent event & key risks

- NIL has launched its own D2C platform 'www.mynestle.in' in Delhi NCR & It will be expanded in others parts of country
- Key Risk:** (i) High inflation in milk, coffee & wheat could remain sticky (ii) Stronger than expected volume growth in core business

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### Key Financial Summary

Key Financials	CY20	CY21	5 Year CAGR (CY16-CY21)	CY22E	CY23E	CY24E	CAGR (CY21-24E)
Net Sales	13290.2	14633.7	9.2%	16709.1	18456.2	20349.3	11.6%
EBITDA	3201.5	3591.5	11.7%	3729.7	4445.4	5091.0	12.3%
EBITDA Margin %	24.1	24.5		22.3	24.1	25.0	
Adjusted Net Profit	2082.4	2320.8	18.3%	2466.2	2903.6	3328.8	12.8%
Adjusted EPS (₹)	215.97	240.69	18.3%	255.77	301.14	345.24	12.8%
P/E	91.7	89.0		77.4	65.7	57.4	
RoNW %	103.1	111.3		103.6	110.3	117.7	
RoCE (%)	54.6	58.7		57.1	63.0	68.9	

## Key takeaways of recent quarter

### Q3CY22 Results: Robust growth mix of volume & prices; margins to inch up in CY23

- Revenue witnessed strong growth of 18.2% to ₹ 4591 crore led by Maggi noodles, Milkmaid & Nescafe classic. The growth was contributed by mix of price & volume growth. The growth has been double digit across categories
- Domestic sales grew 18.3% while export sales were up 15.7% driven by expansion in newer markets contributed by Maggi noodles and confectionary segment
- NIL is witnessing robust growth in metros & mega cities. Moreover, increasing penetration in rural regions is also benefiting the growth in core categories
- The growth was aided by higher ad-spends & distribution expansion. Out of this, home channels saw strong growth on the relatively lower sales in base quarter. Further, e-commerce channel continues to see robust growth through quick commerce and click & mortar models. E-commerce is now contributing 7.2% of total sales (in Q3CY23)
- Maggi noodles robust growth was aided by high media spends & distribution expansion. Within milk product category, Milkmaid saw strong growth. Chocolate business also saw strong performance driven by festive executions, consumer promotions & focused distribution. The growth was also strong in Nescafe classic, Sunrise & vending mixes
- Given most FMCG companies were holding high cost inventories, gross margin continues to remain under pressure with 292 bps contraction. The sharp correction in edible oils & crude related packaging costs would be reflected from Q4CY22 onwards. Milk, grains, green coffee prices continue to remain elevated
- Employee spends were down 90 bps (as percentage of sales) during the quarter. Overhead spend was slightly up 29 bps mainly on account of high fuel costs. Operating profit grew 6.6% to ₹1010.7 crore. Operating margin was down 242 bps to 22%. Net profit grew 8.2% to ₹ 668.3 crore
- The company declared a second interim dividend of ₹ 120/share. This is in addition to the first interim dividend of ₹ 25/ share
- NIL has launched its own D2C platform 'www.mynestle.in' in Delhi NCR. It would be expanded to other parts of the country

### Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
ITC Limited (ITC)	346	360 Buy	425310	23.1	17.5	7.0	32.0	32.3	35.3	27.9	24.4	21.2	24.5	27.0	29.4	31.4	35.2	38.3
Zyklus Wellness (ZYDWEL)	1741	2100 Buy	10254	7.6	12.4	10.5	17.2	18.1	19.7	35.9	30.3	24.5	6.4	7.3	8.7	6.1	7.1	8.4
Nestle (NESIND)	19800	22400 Hold	190912	10.2	14.3	10.5	24.5	22.3	24.1	89.0	77.4	65.7	111.3	103.6	110.3	58.7	57.1	63.0
Varun Beverage (VARBEV)	1018	1100 Buy	60171	36.8	39.8	12.8	18.8	20.8	20.5	59.1	49.4	43.6	18.3	26.3	25.3	17.1	28.1	30.8

Source: Company, ICICI Direct Research

Nestlé India is experiencing robust growth across segments driven by ad-spends & distribution expansion specifically in rural regions. We believe packaged foods category in India has huge potential to grow given lower penetration levels. Moreover, foray in newer categories, expansion of e-commerce channels & increasing manufacturing capacities is also helping in increasing volumes. The sharp dip in commodity inflation would reflect in improving margins from CY23 onwards. We believe higher volumes & margin expansion would boost earnings for the company. We expect profit CAGR of 12.8% in CY21-24. We also believe the company is increasing its addressable market by foraying in newer categories like breakfast cereals, pet foods & other newer categories. We remain positive on Nestlé from a longer term perspective. We maintain our **HOLD** rating on the stock with a target price of ₹ 22400 (earlier ₹ 21600).

**Exhibit 2: Variance Analysis**

Particulars (₹ crore)	Q3CY22	Q3CY22E	Q3CY21	YoY (%)	Q2CY22	QoQ (%)	Comments
Total Operating Income	4,591.0	4,314.5	3,882.6	18.2	4,036.6	13.7	Revenue saw strong growth led by volumes as well as pricing growth
Operating Income	24.4	20.8	17.6	38.6	29.7	-17.9	
Raw Material Expenses	2,167.9	1,984.1	1,719.8	26.1	1,858.3	16.7	Gross margins continue to remain under pressure with 293 bps contraction given company was holding high cost raw material inventory. Moreover, milk, coffee & grain prices continue to remain at an elevated levels
Employee Expenses	417.9	417.6	388.3	7.6	408.4	2.3	
Other operating Expenses	994.5	918.7	826.0	20.4	950.4	4.6	High overhead spends due to higher fuel costs
EBITDA	1,010.7	994.0	948.5	6.6	819.5	23.3	
EBITDA Margin (%)	22.0	23.0	24.4	-242 bps	20.3	171 bps	Operating margin contracted by 242 bps similar to the contraction in gross margins
Depreciation	98.1	113.5	95.5	2.7	101.6	-3.4	
Interest	37.0	46.4	51.9	-28.7	37.0	0.0	
Other Income	30.6	22.4	33.7	-9.0	19.4	58.2	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
PBT	906.2	856.6	834.8	8.6	700.4	29.4	
Tax Outgo	237.9	215.9	216.9	9.7	185.0	28.6	
PAT	668.3	640.7	617.9	8.2	515.3	29.7	Net profit grew by 8.2% led by higher operating profit & lower finance cost
Adjusted PAT	668.3	640.7	617.9	8.2	515.3	29.7	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	CY22E			CY23E			CY24E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Net Sales	16,376.7	16,709.1	2.0	18,091.8	18,456.2	2.0	19,952.1	20,349.3	2.0	We increase our revenue estimate considering strong volumes in last two quarters
EBITDA	3621.0	3729.7	3.0	4397.5	4445.4	1.1	4908.8	5091.0	3.7	We increase our operating profit estimates given edible oil & crude based packaging material softening
EBITDA Margin(%)	22.0	22.3	32 bps	24.2	24.1	-10 bps	24.5	25.0	54 bps	
PAT	2297.2	2466.2	7.4	2834.3	2903.6	2.4	3202.0	3328.8	4.0	We are estimating lower finance costs in FY22, which would increase our earnings estimate as well
EPS (₹)	238.3	255.8	7.4	294.0	301.1	2.4	332.1	345.2	4.0	

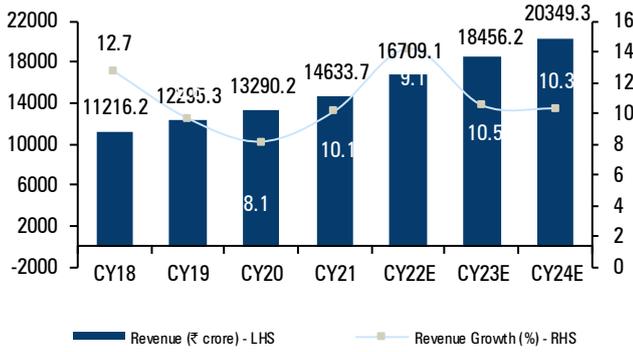
Source: ICICI Direct Research

**Exhibit 4: Assumptions**

	Current						Earlier			Comments
	CY19	CY20	CY21	CY22E	CY23E	CY24E	CY22E	CY23E	CY24E	
<b>Gross Sales (₹ crore)</b>										
Milk Product and Nutrition	5,651.8	6,148.8	6,268.3	7,160.9	7,742.4	8,213.1	6,975.4	7,541.8	8,000.3	
Beverages	1,501.8	1,476.3	1,691.8	1,972.7	2,153.0	2,371.7	1,913.8	2,088.7	2,300.9	We slightly increase our estimate considering stronger volumes in last two quarters despite high inflation
Prepared dishes	3,498.2	3,910.8	4,550.1	5,257.2	6,005.8	6,922.3	5,193.1	5,932.6	6,837.9	
Chocolate & confectionery	1,643.5	1,754.3	2,123.1	2,318.3	2,555.0	2,842.2	2,294.5	2,528.7	2,813.0	
<b>Volume Growth (%)</b>										
Overall Volume Growth	7.0	2.6	10.5	6.6	9.9	10.2	10.8	9.8	10.2	
Milk Product and Nutrition	1.4	-0.4	-2.7	2.0	6.0	4.0	7.0	6.0	4.0	
Beverages	-2.3	-21.3	18.0	6.0	7.0	8.0	12.0	7.0	8.0	
Prepared dishes	9.6	6.6	16.4	9.0	12.0	13.0	13.0	12.0	13.0	
Chocolate & confectionery	16.2	2.7	10.5	3.5	7.0	8.0	7.0	7.0	8.0	

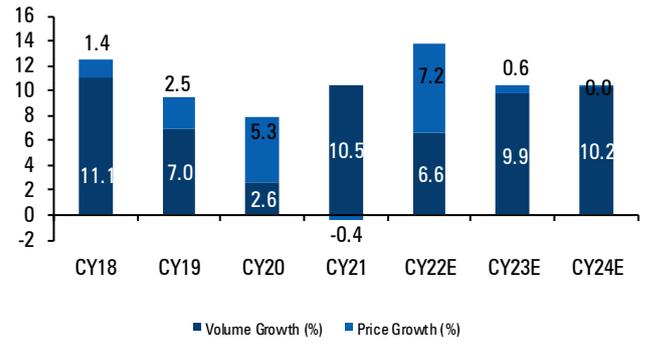
Source: ICICI Direct Research

Exhibit 5: Revenue growth trend



Source: ICICI Direct Research, Company

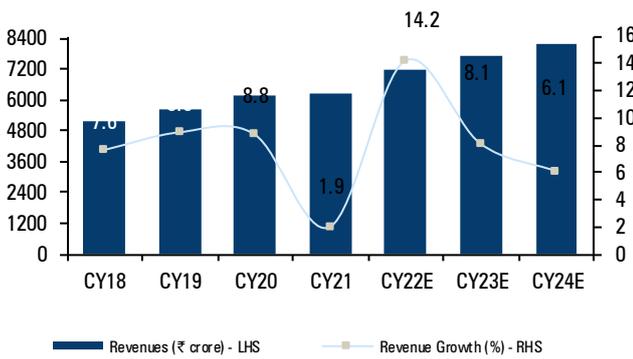
Exhibit 6: Volume growth to drive revenue



Source: ICICI Direct Research, Company

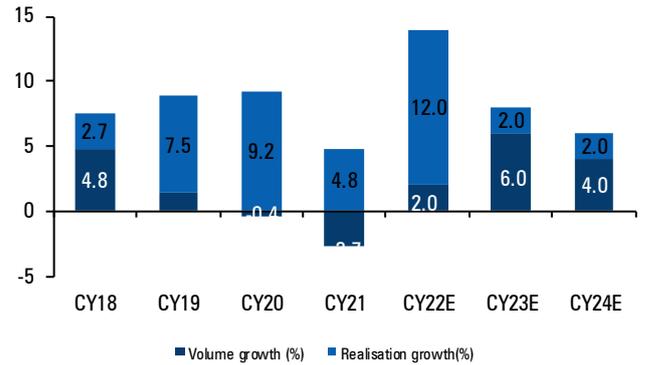
Milk products & nutrition

Exhibit 7: Milk products segment revenue growth



Source: ICICI Direct Research, Company

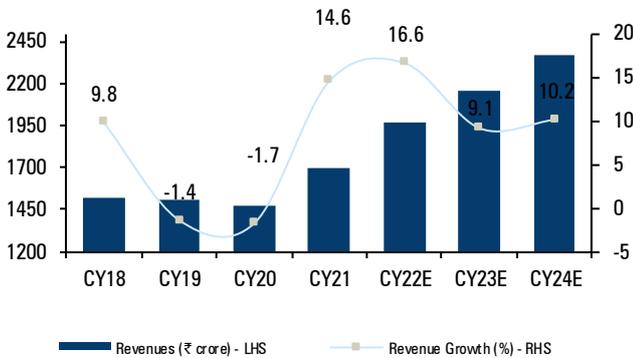
Exhibit 8: Revenue growth to be mix of volume & price growth



Source: ICICI Direct Research, Company

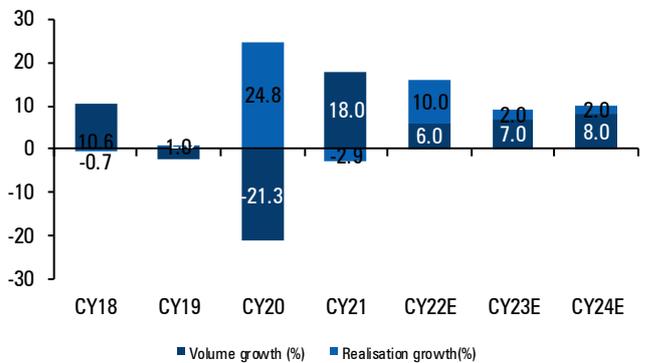
Beverages

Exhibit 9: Beverages revenue growth expected



Source: ICICI Direct Research, Company

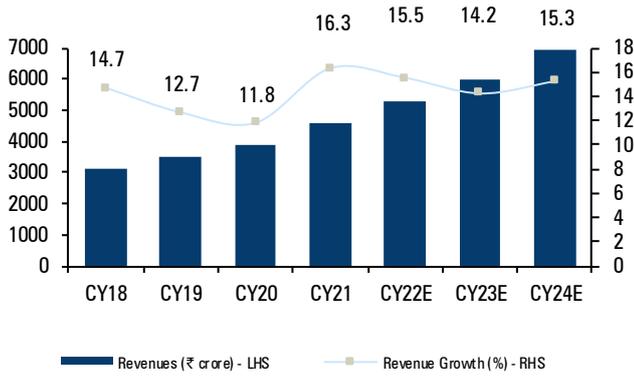
Exhibit 10: Beverage segment volume & value growth (%)



Source: ICICI Direct Research, Company

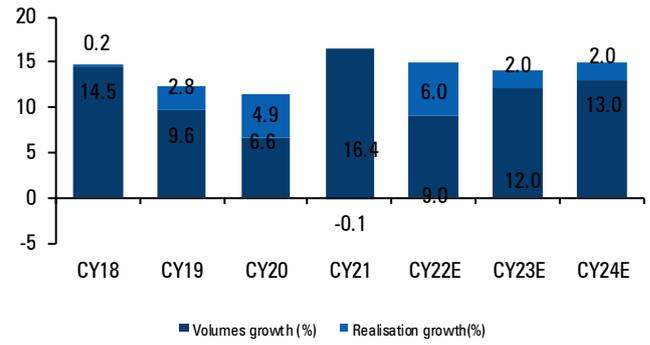
Prepared dishes

Exhibit 11: Robust revenue growth in Maggi continues



Source: ICICI Direct Research, Company

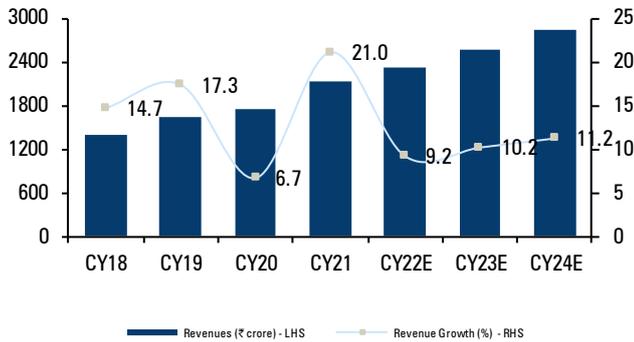
Exhibit 12: Strong volume growth trend



Source: ICICI Direct Research, Company

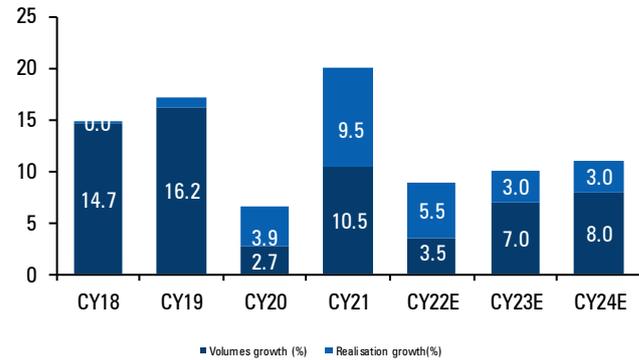
Chocolate & confectionery

Exhibit 13: Sales to gain traction, going forward



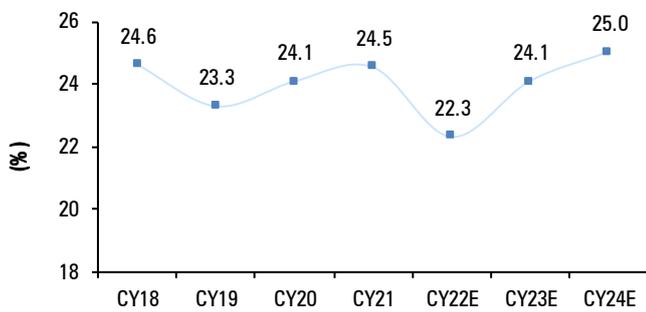
Source: ICICI Direct Research, Company

Exhibit 14: Volumes to recover in CY21



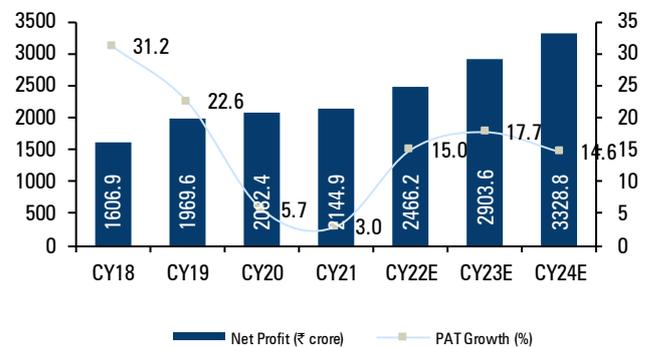
Source: ICICI Direct Research, Company

Exhibit 15: EBITDA margin to remain at elevated levels



Source: ICICI Direct Research, Company

Exhibit 16: Adjusted PAT to grow at 12.8% CAGR in CY21-24E



Source: ICICI Direct Research, Company

Exhibit 17: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
CY21	14633.7	10.1	222.4	3.0	89.0	53.0	111.3	58.7
CY22E	16709.1	14.2	255.8	15.0	77.4	51.1	103.6	57.1
CY23E	18456.2	10.5	301.1	17.7	65.7	42.9	110.3	63.0
CY24E	20349.3	10.3	345.2	14.6	57.4	37.5	117.7	68.9

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end December)	CY21	CY22E	CY23E	CY24E
<b>Total operating Income</b>	<b>14,709.4</b>	<b>16,807.5</b>	<b>18,564.4</b>	<b>20,468.4</b>
Growth (%)	10.2	14.3	10.5	10.3
Raw Material Expenses	6,318.9	7,647.3	8,047.0	8,763.9
Employee Expenses	1,521.3	1,654.2	1,901.0	2,116.3
Marketing Expenses	0.0	0.0	0.0	0.0
Administrative Expenses	29.5	100.3	110.7	122.1
Other expenses	3,248.2	3,676.0	4,060.4	4,375.1
Total Operating Expenditure	11,117.9	13,077.8	14,119.1	15,377.4
<b>EBITDA</b>	<b>3,591.5</b>	<b>3,729.7</b>	<b>4,445.4</b>	<b>5,091.0</b>
Growth (%)	12.2	3.8	19.2	14.5
Depreciation	390.2	398.0	522.9	626.0
Interest	201.2	144.6	141.7	154.0
Other Income	120.1	109.9	101.1	139.4
PBT	3,120.3	3,297.0	3,881.8	4,450.3
Others	236.5	0.0	0.0	0.0
Total Tax	738.9	830.9	978.2	1,121.5
<b>PAT</b>	<b>2,144.9</b>	<b>2,466.2</b>	<b>2,903.6</b>	<b>3,328.8</b>
Growth (%)	3.0	15.0	17.7	14.6
EPS (₹)	222.4	255.8	301.1	345.2

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end December)	CY21	CY22E	CY23E	CY24E
Profit after Tax	2,144.9	2,466.2	2,903.6	3,328.8
Add: Depreciation	390.2	398.0	522.9	626.0
(Inc)/dec in Current Assets	411.9	-2,052.6	-424.1	-1,017.1
Inc/(dec) in CL	110.7	420.5	311.1	337.1
<b>CF from operating activities</b>	<b>3,057.6</b>	<b>1,232.0</b>	<b>3,313.6</b>	<b>3,274.9</b>
(Inc)/dec in LT loans & adv	-2.5	49.1	0.0	0.0
(Inc)/dec in other investments	30.1	-20.0	-20.0	-20.0
(Inc)/dec in Fixed Assets	-812.4	-920.0	-820.0	-220.0
Others	14.2	80.0	100.0	100.0
<b>CF from investing activities</b>	<b>-2,132.6</b>	<b>660.3</b>	<b>-740.0</b>	<b>-140.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	120.2	0.0	0.0	0.0
Dividend paid & dividend tax	-2,073.0	-2,169.5	-2,651.6	-3,133.7
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-6.7	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-1,959.5</b>	<b>-2,169.5</b>	<b>-2,651.6</b>	<b>-3,133.7</b>
Net Cash flow	-1034.5	-277.1	-78.0	1.3
Opening Cash	1,769.9	735.4	458.3	380.3
<b>Closing Cash</b>	<b>735.4</b>	<b>458.3</b>	<b>380.3</b>	<b>381.6</b>

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet				
	₹ crore			
(Year-end December)	CY21	CY22E	CY23E	CY24E
<b>Liabilities</b>				
Equity Capital	96.4	96.4	96.4	96.4
Reserve and Surplus	1,988.1	2,284.8	2,536.9	2,732.0
Total Shareholders funds	2,084.5	2,381.2	2,633.3	2,828.5
Total Debt	217.7	217.7	217.7	217.7
Deferred Tax Liability	0.0	0.0	0.0	0.0
Long Term Provisions	3,284.5	3,384.5	3,484.5	3,584.5
<b>Total Liabilities</b>	<b>5,606.7</b>	<b>5,983.4</b>	<b>6,335.5</b>	<b>6,630.7</b>
<b>Assets</b>				
Gross Block	5,155.7	6,055.7	6,855.7	7,055.7
Less: Acc Depreciation	2,161.7	2,559.7	3,082.6	3,708.7
Net Block	2,994.0	3,496.0	3,773.1	3,347.0
Capital WIP	246.2	266.2	286.2	306.2
Total Fixed Assets	3,240.2	3,762.2	4,059.3	3,653.3
LT Loans & Advances	49.1	0.0	0.0	0.0
Inventory	1,580.2	1,831.1	2,022.6	2,230.1
Debtors	165.3	183.1	202.3	223.0
Loans and Advances	11.9	183.1	202.3	223.0
Current Investments	246.0	1,858.6	2,052.9	2,821.0
Cash	735.4	458.3	380.3	381.6
Total Current Assets	2,738.8	4,514.3	4,860.4	5,878.7
Creditors	1,734.9	2,014.2	2,224.9	2,453.1
Provisions	138.5	274.7	303.4	334.5
Other Current Liabilities	729.9	734.8	806.6	884.4
Total Current Liabilities	2,603.2	3,023.7	3,334.8	3,672.0
Net Current Assets	135.5	1,490.6	1,525.5	2,206.7
<b>Application of Funds</b>	<b>5,606.7</b>	<b>5,983.4</b>	<b>6,335.5</b>	<b>6,630.7</b>

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end December)	CY21	CY22E	CY23E	CY24E
<b>Per share data (₹)</b>				
EPS	222.4	255.8	301.1	345.2
Cash EPS	262.9	297.1	355.4	410.2
BV	216.2	247.0	273.1	293.3
DPS	215.0	225.0	275.0	325.0
Cash Per Share	224.2	265.5	319.7	384.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	24.5	22.3	24.1	25.0
PBT / Net Sales	19.7	19.7	21.0	21.9
PAT Margin	14.7	14.8	15.7	16.4
Inventory days	39.4	40.0	40.0	40.0
Debtor days	4.1	4.0	4.0	4.0
Creditor days	43.3	44.0	44.0	44.0
<b>Return Ratios (%)</b>				
RoE	111.3	103.6	110.3	117.7
RoCE	58.7	57.1	63.0	68.9
RoIC	68.9	62.8	68.6	74.5
<b>Valuation Ratios (x)</b>				
P/E	89.0	77.4	65.7	57.4
EV / EBITDA	53.0	51.1	42.9	37.5
EV / Net Sales	13.0	11.4	10.3	9.4
Market Cap / Sales	13.0	11.4	10.3	9.4
Price to Book Value	91.6	80.2	72.5	67.5
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.1	0.1	0.1
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	0.8	1.4	1.4	1.5
Quick Ratio	0.2	0.7	0.7	0.9

Source: Company, ICICI Direct Research

Exhibit 22: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Colgate (COLPAL)	1,578	1,690	Hold	42,548	39.6	40.6	44.4	39.8	38.9	35.5	8.4	7.8	7.2	77.8	84.1	91.2	62.2	64.1	69.6
Dabur India (DABIND)	526	700	Buy	1,01,458	9.9	11.2	12.8	53.4	47.0	41.0	9.3	8.3	7.5	24.9	25.2	26.7	20.8	21.9	22.7
Hindustan Unilever (HINLEV)	2,583	2,700	Hold	6,10,844	37.5	40.9	44.8	68.8	63.2	57.6	12.1	10.8	10.1	20.2	22.5	24.6	18.1	19.7	21.5
ITC Limited (ITC)	346	360	Buy	3,78,047	12.4	14.2	16.4	27.9	24.4	21.2	6.4	5.4	5.1	31.4	35.2	38.3	24.5	27.0	29.4
Jyothy Lab (JYOLAB)	194	145	Hold	6,077	4.3	5.6	6.4	45.6	34.7	30.5	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	517	515	Hold	67,645	9.7	10.3	11.4	53.2	50.2	45.3	7.1	7.0	6.4	41.2	43.8	47.0	37.5	38.5	41.2
Nestle (NESIND)	19,800	22,400	Hold	1,90,912	222.4	255.8	301.1	89.0	77.4	65.7	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,430	1,750	Buy	50,721	27.3	30.9	43.5	52.4	46.2	32.9	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	765	950	Buy	71,261	11.0	14.5	17.4	69.4	52.7	44.0	5.7	5.1	4.6	8.4	9.8	11.2	7.0	8.5	9.8
Varun Beverage (VARBEV)	1,018	1,100	Buy	60,171	17.2	20.6	23.4	59.1	49.4	43.6	6.8	4.9	4.3	17.1	28.1	30.8	18.3	26.3	25.3
VST Industries (VSTIND)	3,493	3,425	Hold	4,937	207.4	229.3	252.9	16.8	15.2	13.8	4.2	3.8	3.5	39.2	44.6	50.6	30.0	33.4	37.8
Zydus Wellness (ZYDWEL)	1,741	2,100	Buy	10,254	48.5	57.5	71.0	35.9	30.3	24.5	5.1	4.5	4.1	6.1	7.1	8.4	6.4	7.3	8.7

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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