

**Better growth, but margin slips again**

BFSI - Banks ▶ Result Update ▶ July 27, 2023

**TARGET PRICE (Rs): 1,260**

**Despite lower margins yet again and rigidly-higher opex (incl. Citi integration cost of Rs3.9bn), Axis Bank is back in the black, given in-line PAT at Rs58bn/1.8% RoA, mainly on higher treasury gains. Similar to 4Q, Bank logged better than expected credit growth, at ~18% YoY (incl. Citi)/22% YoY (ex-Citi in 1QFY23), but margin slipped again (12bps QoQ), with cumulative contraction of 16bps to 4.1% in the past 2Qs. Fresh slippages were higher at Rs40bn/2.2% of loans, but GNPA ratio improved QoQ to 1.9% due to higher recoveries/w-offs. Also, Bank retains the contingent provision buffer, at 0.6% of loans. Bank's CET 1 ratio too improved, by 36bps QoQ to 14.4% (lower vs peers' at >15%).**

**We expect Axis Bank to clock 1.8% RoA/18% RoE (inflated due to Citi acquisition goodwill w-off) on merged basis (without factoring-in any equity dilution) over FY24-26E. We retain BUY, with revised TP of Rs1,260/sh, valuing the core bank at 2x Jun-25E ABV + subs/investment value at Rs80/sh.**

**AXIS Bank: Financial Snapshot (Standalone)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	130,255	95,797	252,229	290,777	341,770
Loan growth (%)	15.2	19.4	15.1	16.8	18.2
NII growth (%)	13.3	29.6	15.8	12.5	16.0
NIM (%)	3.3	3.7	3.7	3.6	3.6
PPOP growth (%)	7.0	29.5	19.1	17.9	22.9
Adj. EPS (INR)	42.5	31.2	82.0	94.5	111.1
Adj. EPS growth (%)	89.7	(26.6)	163.0	15.3	17.5
Adj. BV (INR)	364.1	400.9	478.5	570.2	677.7
Adj. BVPS growth (%)	10.6	10.1	19.3	19.2	18.8
RoA (%)	1.2	0.8	1.8	1.8	1.8
RoE (%)	12.0	8.0	18.3	17.7	17.5
P/E (x)	20.8	28.4	10.8	9.4	8.0
P/ABV (x)	2.4	2.2	1.9	1.6	1.3

Source: Company, Emkay Research

**Better growth, but margin slips again**

Overall credit growth was better than expected at 22% YoY (ex-Citi in 1QFY23); including Citi, it was at 18% YoY (calc). Retail credit growth remains healthy at 21% YoY (ex-Citi), but mortgages growth continues to decelerate. The SME book declined 6% QoQ due to seasonal factors. Deposit growth was relatively moderate at 17% YoY/-1% QoQ, while CASA ratio slipped to 45.5%. This led to relatively higher increase of 30bps in CoF, weighing on margins — down 12bps QoQ to 4.1% (cumulatively down by 16bps from 3Q). Management did not provide any guidance on near-term NIM, but retains its previous stance of structurally-healthy margins in the long run due to better portfolio mix (including unsecured retail loans) and run-down of the RIDF book (2.3% of loans).

**Higher slippages, but headline NPAs continue to trend down**

Gross slippages were higher than expected at Rs40bn/2.2% of loans, mainly to due higher stress in the retail book (Rs20bn; 50% of gross slippages), including the Citi portfolio, but higher recoveries and w-offs led to a 9bps QoQ reduction in GNPA ratio to 1.9%. Bank retains healthy specific PCR at 80%, while also maintain its contingent buffer at 0.6% of loans, unlike some peers like Kotak and IIB. The RSA pool declined to 0.2% of loans. The BB & Below corporate watch-list has marginally increased to Rs58bn/0.6% of loans.

**Outlook & Valuations**

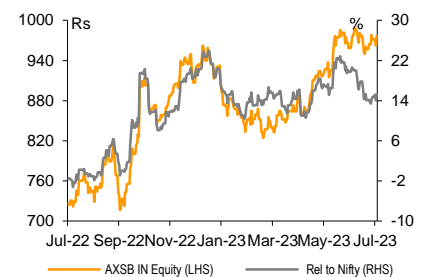
After a sharp dip in RoA to a low of 0.8% due to hit on Citi portfolio acquisition in FY23, we expect Bank to clock 1.8% RoA/18% RoE (inflated due to Citi acquisition goodwill w-off) on merged basis (without factoring-in any equity dilution) over FY24-26E, on the back of better growth/fees and contained provisions. We retain BUY on the stock, with revised TP of Rs1,260/share, valuing the bank at 2x its Jun-25E core-bank ABV + subs/investment value at Rs80/share. **Key risks:** Macro-dislocation leading to slower than expected growth/higher NPAs and KMP attrition.

Target Price – 12M	Jun-24
<b>Change in TP (%)</b>	<b>2.9</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	29.0
CMP (26-Jul-23) (Rs)	976.8

Stock Data	Ticker
52-week High (Rs)	990
52-week Low (Rs)	702
Shares outstanding (mn)	3,080.0
Market-cap (Rs bn)	3,009
Market-cap (USD mn)	36,692
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	11
ADTV-3M (Rs mn)	10,660.5
ADTV-3M (USD mn)	130.0
Free float (%)	89.0
Nifty-50	19,778
INR/USD	82.0
<b>Shareholding, Jun-23</b>	
Promoters (%)	8.0
FPIs/MFs (%)	50.5/29.0

**Price Performance**

(%)	1M	3M	12M
Absolute	1.7	10.0	38.3
Rel. to Nifty	(3.9)	(0.9)	15.2

**1-Year share price trend (Rs)****Anand Dama**

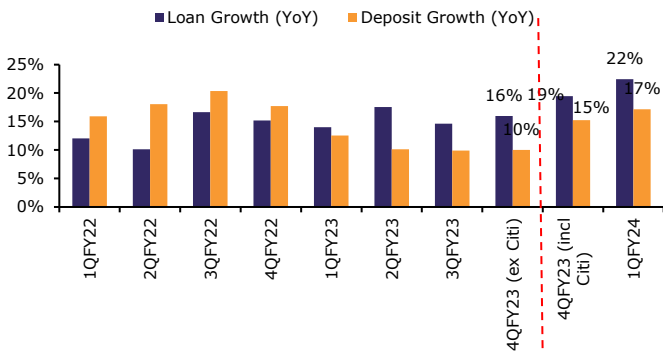
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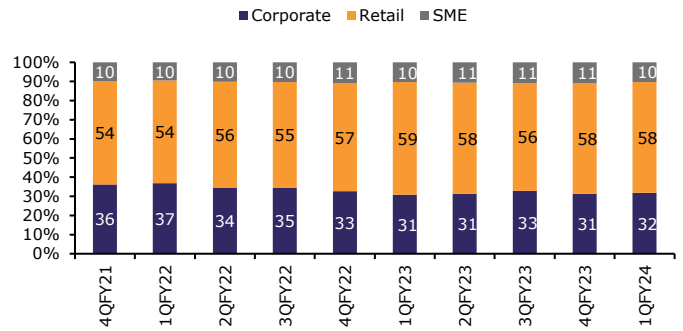
# Story in Charts

**Exhibit 1: Better growth in 1Q vs expectations**



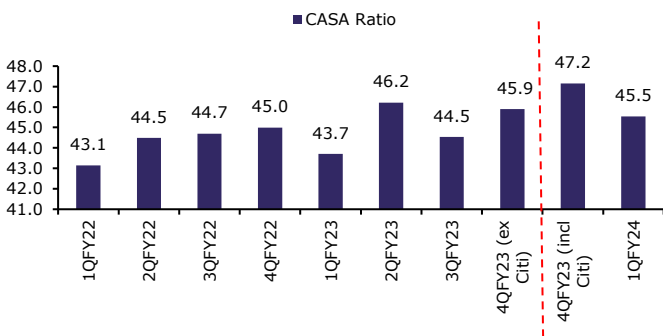
Source: Company, Emkay Research

**Exhibit 2: Share of Retail on the rise, but the SME book contracted a bit in 1Q which largely seems to be due to seasonal factors**



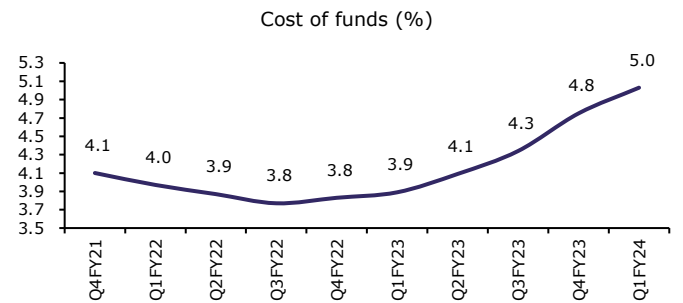
Source: Company, Emkay Research

**Exhibit 3: CASA ratio slipped due to cannibalization...**



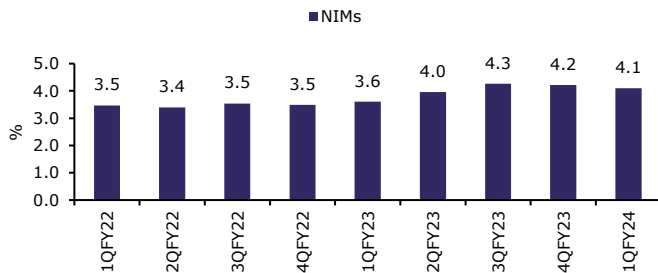
Source: Company, Emkay Research

**Exhibit 4: ....which, coupled with the rising deposits cost, led to higher CoF...**



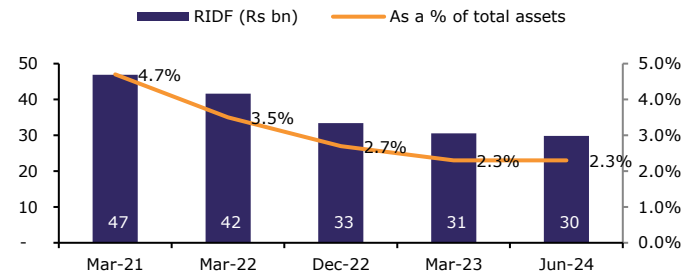
Source: Company, Emkay Research

**Exhibit 5: ...in turn leading to lower NIM for a second straight quarter**



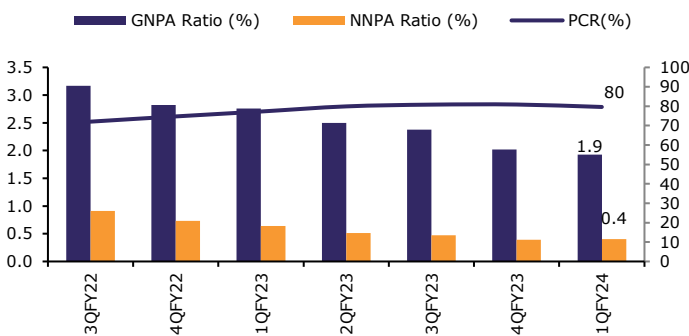
Source: Company, Emkay Research

**Exhibit 6: The RIDF book continues to decline, though the pace has reduced**



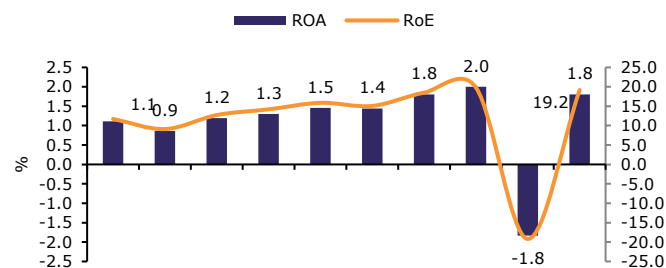
Source: Company, Emkay Research

**Exhibit 7: NPAs continue to trend down**



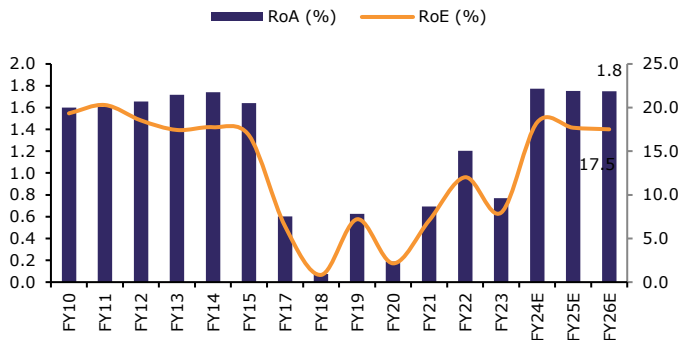
Source: Company, Emkay Research

**Exhibit 8: Bank is back in the black, with healthy RoA/RoE in 1Q**



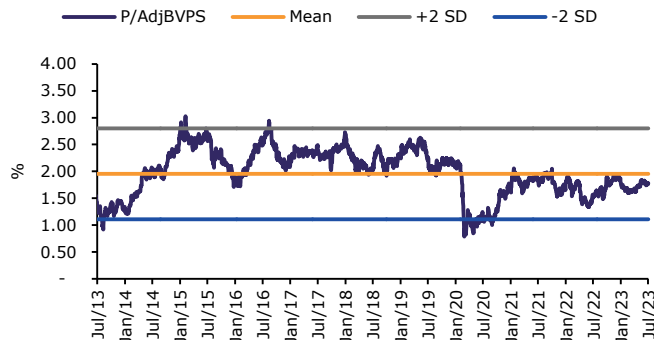
Source: Company, Emkay Research

**Exhibit 9: Return ratios to normalize after a dip in FY23, due to the Citi acquisition**



Source: Company, Emkay Research

**Exhibit 10: The stock currently trades at 1.8x one-year forward ABV, adjusted for subsidiaries' valuation**



Source: Bloomberg, Emkay Research

**Exhibit 11: Actual vs Estimates (Q1FY24)**

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	170,460	161,916	168,035	5%	1%	Higher other income partly offset by lower margins led to a beat
PPOP	88,144	86,375	75,343	2%	17%	Higher Net income partly offset by lower opex led to a beat
PAT	57,971	56,584	25,084	2%	131%	Higher PPOP led to a beat

Source: Company, Emkay Research

**Exhibit 12: Quarterly Summary**

(Rs mn)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	187,287	202,389	222,264	239,698	255,568	36	7	851,638	1,089,117	28
Interest Exp	93,446	98,787	107,671	122,276	135,980	46	11	422,180	592,004	40
Net Interest Income	93,840	103,603	114,593	117,422	119,588	27	2	429,458	497,113	16
Global NIMs (reported)	3.60	3.96	4.26	4.22	4.10	50bps	-12bps	3.69	3.74	5bps
Non-interest Income	29,990	39,412	46,654	48,953	50,873	70	4	165,009	222,318	35
Operating Expenses	64,960	65,852	68,473	74,699	82,317	27	10	273,983	337,623	23
Pre Provisioning Profit	58,870	77,162	92,775	91,676	88,144	50	-4	320,483	381,808	19
Provision & Contingencies	3,594	5,498	14,377	3,058	10,349	188	238	26,526	44,198	67
PBT	55,276	71,664	78,398	88,618	77,795	41	-12	293,957	337,610	15
Income Tax Expense (Gain)	14,024	18,367	19,867	21,004	19,824	41	-6	73,262	85,381	17
Net Profit/(Loss)	41,253	53,298	58,531	-57,284	57,971	41	-201	95,797	252,229	163
Gross NPA (%)	2.76	2.50	2.38	2.02	1.93	-83bps	-9bps	1.79	1.59	-20bps
Net NPA (%)	0.64	0.51	0.47	0.39	0.40	-24bps	1bps	0.35	0.40	5bps
Deposits (Rs bn)	8,036	8,108	8,482	9,469	9,417	17	-1	9,469	10,976	16
Net Advances (Rs bn)	7,011	7,309	7,621	8,453	8,585	22	2	8,453	9,729	15

Source: Company, Emkay Research

**Exhibit 13: Revision in Estimates**

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	702,304	719,431	2.4%	813,083	831,746	2.3%	955,684	984,115	3.0%
PPOP	386,585	381,808	-1.2%	457,557	450,288	-1.6%	555,347	553,313	-0.4%
PAT	252,966	252,229	-0.3%	295,974	290,777	-1.8%	342,983	341,770	-0.4%
EPS (Rs)	82.2	82.0	-0.3%	96.2	94.5	-1.8%	111.5	111.1	-0.4%
BV (Rs)	488.2	488.0	0.0%	582.4	580.3	-0.4%	691.5	688.6	-0.4%

Source: Emkay Research

**Exhibit 14: Key Assumptions**

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	19.4	15.1	16.8	16.8
Deposit Growth	15.2	15.9	17.5	17.5
NIM	3.7	3.7	3.6	3.6
GNPA	1.8	1.6	1.3	1.3
Credit Cost	0.4	0.5	0.6	0.6

Source: Emkay Research

**Exhibit 15: Key ratios and trends**

	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Loans (Rs bn)	6,149	6,217	6,649	7,077	7,011	7,309	7,621	8,453	8,585
growth YoY (%)	12.0	10.1	16.7	15.2	14.0	17.6	14.6	19.4	22.4
<b>Composition (%)</b>									
- Corporate	36.9	34.4	34.5	33.0	31.1	31.4	32.9	31.4	31.8
- SME/BB	9.5	10.0	10.2	10.9	10.1	10.7	10.8	11.0	10.2
- Retail	53.9	55.6	55.3	56.5	58.9	57.9	56.3	57.7	58.0
<b>Liability Profile (%)</b>									
CASA	43.1	44.5	44.7	45.0	43.7	46.2	44.5	47.2	45.5
CA	13.6	14.2	15.1	15.5	13.5	15.1	14.9	15.7	14.2
SA	29.6	30.3	29.6	29.5	30.3	31.1	29.6	31.4	31.4
NIM - Overall	3.5	3.4	3.5	3.5	3.6	4.0	4.3	4.2	4.1
NIM - Domestic	3.6	3.5	3.7	3.6	3.7	4.1	4.4	4.4	4.2
<b>Asset Quality</b>									
GNPA (%)	4.1	3.8	3.4	3.0	2.9	2.7	2.6	2.2	2.1
NNPA (%)	1.2	1.1	0.9	0.7	0.6	0.5	0.5	0.4	0.4
PCR - Specific (%)	69.8	70.2	72.0	74.7	77.3	79.9	80.8	80.9	79.6
Slippages (Rs bn)	65.2	54.6	41.5	39.8	36.8	33.8	38.1	37.7	39.9
Slippages (%)	4.75	3.87	2.91	2.59	2.40	2.18	2.29	2.13	2.28
<b>Capital Adequacy</b>									
CAR (%)	19.0	20.0	18.7	18.5	17.8	17.7	19.5	17.6	17.7
Tier I (%)	16.5	17.5	16.5	16.3	15.8	15.8	16.2	14.6	14.9
<b>ROE Decomposition - on total assets (%)</b>									
NII	3.3	3.2	3.4	3.3	3.5	3.7	3.9	3.8	3.9
Other Income (Ex Treasury)	1.2	1.4	1.4	1.5	1.4	1.4	1.5	1.5	1.5
Treasury	0.2	0.2	0.1	0.1	(0.2)	(0.0)	0.1	0.0	0.2
Net income	4.7	4.8	4.9	4.8	4.6	5.1	5.5	5.3	5.6
Opex	2.1	2.4	2.5	2.4	2.4	2.4	2.3	2.4	2.7
PPOP	2.6	2.4	2.4	2.4	2.2	2.8	3.2	2.9	2.9
Provisions	1.4	0.7	0.5	0.4	0.1	0.2	0.5	0.1	0.3
PBT	1.2	1.7	1.9	2.0	2.0	2.6	2.7	2.8	2.5
Tax	0.3	0.4	0.5	0.5	0.5	0.7	0.7	0.7	0.6
ROA	0.9	1.3	1.4	1.5	1.5	1.9	2.0	(1.8)	1.9
Leverage (x)	10.0	9.4	9.8	10.0	9.7	9.6	9.7	10.4	9.8
ROE	9.1	12.1	13.8	15.2	14.8	18.2	19.4	(19.0)	18.5

Source: Company, Emkay Research

### AXIS Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	673,768	851,638	1,089,117	1,230,315	1,399,126
Interest Expense	342,446	422,180	592,004	670,998	750,494
<b>Net interest income</b>	<b>331,322</b>	<b>429,458</b>	<b>497,113</b>	<b>559,317</b>	<b>648,632</b>
NII growth (%)	13.3	29.6	15.8	12.5	16.0
Other income	152,205	165,009	222,318	272,429	335,483
<b>Total Income</b>	<b>483,528</b>	<b>594,466</b>	<b>719,431</b>	<b>831,746</b>	<b>984,115</b>
Operating expenses	236,108	273,983	337,623	381,459	430,803
<b>PPOP</b>	<b>247,420</b>	<b>320,483</b>	<b>381,808</b>	<b>450,288</b>	<b>553,313</b>
PPOP growth (%)	7.0	29.5	19.1	17.9	22.9
<b>Core PPOP</b>	<b>233,643</b>	<b>323,578</b>	<b>369,428</b>	<b>431,718</b>	<b>527,315</b>
Provisions & contingencies	73,595	26,526	44,198	61,163	96,044
<b>PBT</b>	<b>173,826</b>	<b>293,957</b>	<b>337,610</b>	<b>389,124</b>	<b>457,269</b>
Extraordinary items	0	(124,898)	0	0	0
Tax expense	43,571	73,262	85,381	98,347	115,499
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>130,255</b>	<b>95,797</b>	<b>252,229</b>	<b>290,777</b>	<b>341,770</b>
PAT growth (%)	97.7	(26.5)	14.3	15.3	17.5
<b>Adjusted PAT</b>	<b>130,255</b>	<b>220,695</b>	<b>252,229</b>	<b>290,777</b>	<b>341,770</b>
<b>Diluted EPS (INR)</b>	<b>45.9</b>	<b>31.1</b>	<b>81.7</b>	<b>94.2</b>	<b>110.8</b>
Diluted EPS growth (%)	90.3	(32.3)	163.0	15.3	17.5
<b>DPS (INR)</b>	<b>1.0</b>	<b>1.2</b>	<b>1.6</b>	<b>2.2</b>	<b>2.8</b>
<b>Dividend payout (%)</b>	<b>2.4</b>	<b>1.7</b>	<b>2.0</b>	<b>2.3</b>	<b>2.5</b>
Effective tax rate (%)	25.1	24.9	25.3	25.3	25.3
Net interest margins (%)	3.3	3.7	3.7	3.6	3.6
Cost-income ratio (%)	48.8	46.1	46.9	45.9	43.8
Shares outstanding (mn)	3,069.7	3,076.9	3,076.9	3,076.9	3,076.9

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset quality</b>					
Gross NPLs	185,655.6	153,465.6	156,478.6	153,037.3	148,977.0
Net NPLs	46,895.3	29,357.4	39,119.7	41,320.1	44,693.1
GNPA ratio (%)	2.6	1.8	1.6	1.3	1.1
NNPA ratio (%)	0.7	0.3	0.4	0.4	0.3
Provision coverage (%)	74.7	80.9	75.0	73.0	70.0
Gross slippages	189,156.8	146,450.0	150,652.3	172,068.5	203,015.8
Gross slippage ratio (%)	2.6	1.7	1.5	1.5	1.5
LLP ratio (%)	0.9	0.4	0.5	0.6	0.8
NNPA to networth (%)	3.8	2.2	2.5	2.2	2.0
<b>Capital adequacy</b>					
Total CAR (%)	18.5	17.6	17.0	16.5	15.8
Tier-1 (%)	16.3	14.6	14.4	14.2	13.9
CET-1 (%)	15.2	14.0	14.0	13.8	13.6
RWA-to-Total Assets (%)	61.0	68.7	73.0	75.5	78.0
<b>Miscellaneous</b>					
Total income growth (%)	9.2	23.1	29.0	14.6	15.4
Opex growth (%)	28.5	16.0	23.2	13.0	12.9
Core PPOP growth (%)	5.5	38.5	14.2	16.9	22.1
PPOP margin (%)	30.0	31.5	29.1	30.0	31.9
PAT/PPOP (%)	52.6	68.9	66.1	64.6	61.8
LLP-to-Core PPOP (%)	31.5	8.2	12.0	14.2	18.2
Yield on advances (%)	7.6	8.4	9.4	9.2	8.8
Cost of funds (%)	3.7	3.9	4.8	4.7	4.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	6,139	6,154	6,154	6,154	6,154
Reserves & surplus	1,145,600	1,248,013	1,495,319	1,779,327	2,112,482
<b>Net worth</b>	<b>1,151,740</b>	<b>1,254,167</b>	<b>1,501,473</b>	<b>1,785,481</b>	<b>2,118,636</b>
Deposits	8,217,209	9,469,452	10,976,290	12,896,763	15,456,917
Borrowings	1,851,339	1,863,000	2,124,534	2,424,402	2,768,310
<b>Interest bearing liab.</b>	<b>10,068,548</b>	<b>11,332,453</b>	<b>13,100,824</b>	<b>15,321,165</b>	<b>18,225,227</b>
<b>Other liabilities &amp; prov.</b>	<b>531,493</b>	<b>586,636</b>	<b>670,877</b>	<b>780,076</b>	<b>812,968</b>
<b>Total liabilities &amp; equity</b>	<b>11,751,780</b>	<b>13,173,255</b>	<b>15,273,174</b>	<b>17,886,722</b>	<b>21,156,831</b>
Net advances	7,076,960	8,453,028	9,729,194	11,359,517	13,430,101
Investments	2,755,972	2,888,148	3,297,786	3,824,049	4,439,935
Cash, other balances	1,109,871	1,064,108	1,244,578	1,424,868	1,640,270
<b>Interest earning assets</b>	<b>10,942,803</b>	<b>12,405,285</b>	<b>14,271,558</b>	<b>16,608,434</b>	<b>19,510,306</b>
Fixed assets	45,724	47,339	52,308	57,830	63,967
Other assets	763,253	720,632	949,308	1,220,458	1,582,558
<b>Total assets</b>	<b>11,751,780</b>	<b>13,173,255</b>	<b>15,273,174</b>	<b>17,886,722</b>	<b>21,156,831</b>
BVPS (INR)	375.6	408.1	488.0	580.3	5.6
Adj. BVPS (INR)	364.1	400.9	478.5	570.2	677.7
Gross advances	7,215,720	8,577,137	9,846,553	11,471,234	13,534,385
Credit to deposit (%)	86.1	89.3	88.6	88.1	86.9
CASA ratio (%)	45.0	47.2	45.3	43.7	43.1
Cost of deposits (%)	3.5	3.7	4.6	4.5	4.4
Loans-to-Assets (%)	60.2	64.2	63.7	63.5	63.5
Net advances growth (%)	15.2	19.4	15.1	16.8	18.2
Deposit growth (%)	17.7	15.2	15.9	17.5	19.9
Book value growth (%)	8.8	8.7	19.6	18.9	(99.0)

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	20.8	28.4	10.8	9.4	8.0
P/B (x)	2.4	2.2	1.8	1.5	1.3
P/ABV (x)	2.4	2.2	1.9	1.6	1.3
P/PPOP (x)	12.0	9.3	7.8	6.6	5.4
Dividend yield (%)	0.1	0.1	0.2	0.2	0.3
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.1	3.4	3.5	3.4	3.3
Other income	1.4	1.3	1.6	1.6	1.7
Fee income	1.1	1.1	1.2	1.3	1.3
Opex	2.2	2.2	2.4	2.3	2.2
<b>PPOP</b>	<b>2.3</b>	<b>2.6</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>
Core PPOP	2.2	2.6	2.6	2.6	2.7
Provisions	0.7	0.2	0.3	0.4	0.5
Tax expense	0.4	0.6	0.6	0.6	0.6
<b>RoA (%)</b>	<b>1.2</b>	<b>1.8</b>	<b>0.8</b>	<b>1.8</b>	<b>1.8</b>
Leverage ratio (x)	10.0	10.4	10.3	10.1	10.0
<b>RoE (%)</b>	<b>12.0</b>	<b>18.3</b>	<b>8.0</b>	<b>17.7</b>	<b>17.5</b>
<b>Quarterly data</b>					
Rs mn, Y/E Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	93,840	103,603	114,593	117,422	119,588
NIM (%)	3.6	4.0	4.3	4.2	4.1
PPOP	58,870	77,162	92,775	91,676	88,144
PAT	41,253	53,298	58,531	67,614	57,971
EPS (Rs)	13.43	17.35	19.03	21.98	18.82

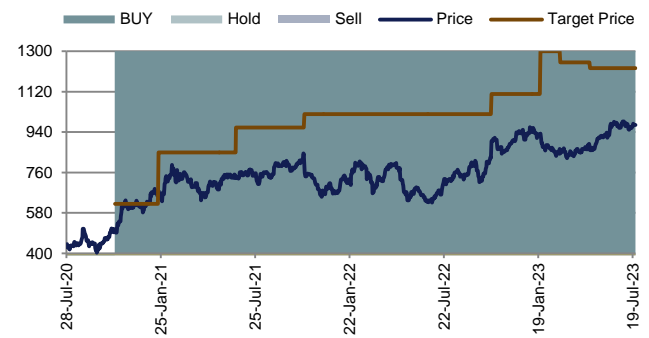
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	CMP (INR)	TP (INR)	Rating	Analyst
28-Apr-23	860	1,225	Buy	Anand Dama
09-Mar-23	868	1,250	Buy	Anand Dama
02-Mar-23	845	1,250	Buy	Anand Dama
23-Jan-23	933	1,300	Buy	Anand Dama
25-Nov-22	888	1,110	Buy	Anand Dama
21-Oct-22	900	1,110	Buy	Anand Dama
25-Jul-22	727	1,020	Buy	Anand Dama
29-Apr-22	729	1,020	Buy	Anand Dama
31-Mar-22	761	1,020	Buy	Anand Dama
25-Jan-22	752	1,020	Buy	Anand Dama
27-Oct-21	788	1,020	Buy	Anand Dama
27-Jul-21	732	960	Buy	Anand Dama
18-Jun-21	736	960	Buy	Anand Dama
28-Apr-21	708	850	Buy	Anand Dama
28-Jan-21	671	850	Buy	Anand Dama
20-Jan-21	676	850	Buy	Anand Dama
29-Oct-20	494	620	Buy	Anand Dama

Source: Company, Emkay Research

**RECOMMENDATION HISTORY - TREND**



Source: Bloomberg, Company, Emkay Research

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