

# Britannia Industries

Estimate change	↔
TP change	↔
Rating change	↔

**CMP: INR4,660      TP: INR4,600 (-1%)      Neutral**

## Volumes flat; competition intensifies



Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USD\$)	1113.8 / 13.6
52-Week Range (INR)	4680 / 3156
1, 6, 12 Rel. Per (%)	4/22/33
12M Avg Val (INR M)	1382

### Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	163.0	177.9	197.4
Sales Gr. (%)	15.3	9.2	11.0
EBITDA	28.3	31.4	35.6
EBITDA mrg. (%)	17.4	17.6	18.0
Adj. PAT	19.4	21.4	24.7
Adj. EPS (INR)	80.3	89.0	102.6
EPS Gr. (%)	27.6	10.8	15.3
BV/Sh.(INR)	146.7	148.4	163.8
<b>Ratios</b>			
RoE (%)	63.5	60.3	65.7
RoCE (%)	32.8	32.4	36.4
Payout (%)	89.6	85.0	85.0
<b>Valuation</b>			
P/E (x)	58.0	52.4	45.4
P/BV (x)	31.8	31.4	28.4
EV/EBITDA (x)	39.5	35.5	31.2
Div. Yield (%)	1.5	1.6	1.9

### Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	50.6	50.6	50.6
DII	12.6	14.4	8.7
FII	21.3	19.4	16.7
Others	15.6	15.7	24.1

FII Includes depository receipts

- Britannia Industries (BRIT)'s revenue was in line while profitability was slightly below our estimates at ~INR4.5b (est. INR4.7b). GP margin and EBITDA margin expanded YoY due to moderating RM prices while they contracted 300/270bp QoQ because of PLI scheme in 4QFY23 and price cuts taken in 1QFY24.
- In response to the prevailing trend of smaller regional players offering more discounts and promotions due to the moderating RM prices, BRIT also implemented price reductions to maintain competitiveness.
- Volume growth was flattish for the quarter due to slowdown in the traditional markets (both rural and urban). Management focused on cost reduction across verticals (7x targeted in FY24 from FY14 level).
- Although we like the structural investment case accompanied by healthy return ratios, these are priced in at valuations of ~52x FY24E EPS/~45x FY25E EPS. We reiterate our **Neutral rating on the stock with a TP of INR4,600 (premised on 45x FY25E EPS).**

### Sales in line; profitability slightly below estimates

- BRIT's consolidated sales rose 8.4% YoY to INR40.1b (est. INR40.8b) in 1QFY24. Consol. EBITDA/PBT/Adj. PAT increased 37.6%/33.6%/34.7% YoY to INR6.9b/INR6.2b/INR4.5b (est. INR7.1b/INR6.4b/INR4.7b).
- Tonnage volume growth remained flattish YoY in 1QFY24 (est. +7%).
- Consolidated gross margin expanded 510bp YoY, while contracted 300bp QoQ to 41.9% (est. 41.6%) during the quarter.
- EBITDA margin expanded 360bp YoY, while contracted 270bp QoQ to 17.2% (est. of 17.4%).
- **On a standalone basis**, sales/EBITDA/PAT rose 9.9%/41.9%/37.7% YoY in 1QFY24 to INR38.7b/INR6.7b/4.4b.

### Highlights from the management commentary

- In 1QFY24, local regional players have increased their market share, leading to a further expansion of the gap between largest competitor and BRIT.
- Volume growth was flattish in tonnage terms in 1QFY24. Volumes grew 9% YoY in transaction terms.
- Overall commodity cost remained stable in 1QFY24 as flour & sugar prices slightly increased while, prices of palm oil, laminates and corrugated boxes softened YoY.
- ICD on Jun'23 stood at ~INR7.6b between Bombay Dyeing and Bombay Burmah.
- BRIT is setting up factories in Barabanki, UP and Tirunelveli, Tamil Nadu in 1QFY24. Each will have five product lines.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Valuation and view**

- We broadly maintain our FY24/FY25 EPS estimates.
- Our forecasts already factor in the highest ever annual EBITDA margin going forward (barring the unusually high margin during the Covid-led restrictions, which, as per the management, is unlikely to be replicated).
- BRIT's valuations at ~52x FY24E P/E and ~45x FY25E P/E appear rich. Although we are optimistic about its potential in the Packaged Food space in the long run, as well as its remarkable progress in direct distribution and high RoE, we believe the current valuations are already priced in. We reiterate our **Neutral rating on the stock with a TP of INR4,600 (premised on 45x FY25E EPS)**.

**Consol. Quarterly Performance**

Y/E March	FY23				FY23				FY23	FY24	FY22	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Base business volume growth (%)</b>	<b>-2.0</b>	<b>4.0</b>	<b>2.0</b>	<b>3.0</b>	<b>0.0</b>	<b>4.0</b>	<b>6.0</b>	<b>7.0</b>	<b>1.8</b>	<b>4.3</b>	<b>7.0</b>	
<b>Net Sales</b>	<b>37.0</b>	<b>43.8</b>	<b>42.0</b>	<b>40.2</b>	<b>40.1</b>	<b>46.9</b>	<b>46.0</b>	<b>45.0</b>	<b>163.0</b>	<b>177.9</b>	<b>40.8</b>	(1.7)
YoY change (%)	8.7	21.4	17.4	13.3	8.4	7.0	9.5	11.9	15.3	9.2	10.2	
<b>Gross Profit</b>	<b>13.6</b>	<b>17.1</b>	<b>18.3</b>	<b>18.1</b>	<b>16.8</b>	<b>19.5</b>	<b>19.3</b>	<b>18.7</b>	<b>67.1</b>	<b>74.4</b>	<b>17.0</b>	(0.9)
Margins (%)	36.9	38.9	43.7	44.9	41.9	41.7	41.9	41.6	41.2	41.8	41.6	
<b>EBITDA</b>	<b>5.0</b>	<b>7.1</b>	<b>8.2</b>	<b>8.0</b>	<b>6.9</b>	<b>8.2</b>	<b>8.2</b>	<b>8.2</b>	<b>28.3</b>	<b>31.4</b>	<b>7.1</b>	(2.9)
Margins (%)	13.5	16.3	19.5	19.9	17.2	17.5	17.8	18.1	17.4	17.6	17.4	
YoY growth (%)	-9.6	27.5	51.5	45.7	37.6	15.1	-0.1	1.9	28.6	10.9	41.7	
Depreciation	0.5	0.5	0.6	0.7	0.7	0.8	0.8	0.8	2.3	3.0	0.8	
Interest	0.4	0.5	0.4	0.3	0.5	0.5	0.5	0.5	1.7	2.0	0.6	
Other Income	0.6	0.5	0.5	0.6	0.5	0.6	0.6	0.8	2.2	2.6	0.7	
<b>PBT</b>	<b>4.6</b>	<b>6.6</b>	<b>7.7</b>	<b>7.6</b>	<b>6.2</b>	<b>7.6</b>	<b>7.5</b>	<b>7.6</b>	<b>26.5</b>	<b>28.9</b>	<b>6.4</b>	(3.3)
Tax	1.3	1.7	2.2	2.0	1.7	2.0	1.9	1.9	7.2	7.5	1.7	
Rate (%)	27.5	25.6	28.1	26.9	26.9	25.8	25.2	25.5	27.0	25.8	26.2	
<b>Adjusted PAT</b>	<b>3.4</b>	<b>4.9</b>	<b>5.6</b>	<b>5.5</b>	<b>4.5</b>	<b>5.6</b>	<b>5.6</b>	<b>5.7</b>	<b>19.4</b>	<b>21.4</b>	<b>4.7</b>	(4.2)
YoY change (%)	-13.2	28.5	49.7	46.5	34.7	14.4	1.3	2.5	27.6	10.8	40.6	

E: MOFSL Estimates

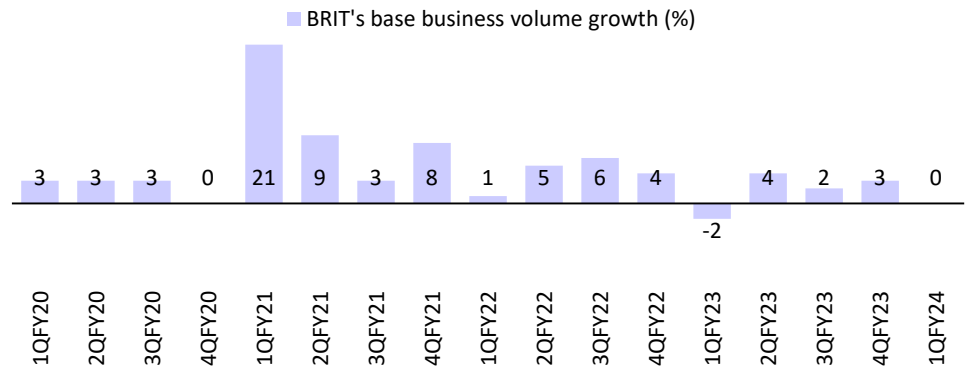
**Key Performance Indicators**

Y/E March	FY23				FY24	
	1Q	2Q	3Q	4Q	1Q	
<b>2Y average growth %</b>						
Volumes	-	0.5	4.5	4.0	3.5	- 1.0
Sales		4.1	13.5	15.2	13.4	8.6
EBITDA	-	16.2	5.1	19.9	27.2	14.0
PAT	-	20.9	2.8	15.8	25.8	10.8
<b>% sales</b>						
COGS		63.1	61.1	56.3	55.1	61.9
Staff cost		4.0	3.7	4.2	4.2	4.2
Others		19.4	19.0	19.9	20.8	18.0
Depreciation		1.4	1.2	1.4	1.6	1.8
<b>YoY change %</b>						
COGS		12.0	18.6	6.5	0.7	- 0.3
Staff cost		5.5	5.8	39.3	40.5	28.1
Others		14.9	29.6	21.6	23.0	12.2
Other income	-	8.2	- 0.3	- 7.9	4.7	- 2.8
EBIT	-	10.9	29.9	55.2	47.5	37.4

E: MOFSL Estimates

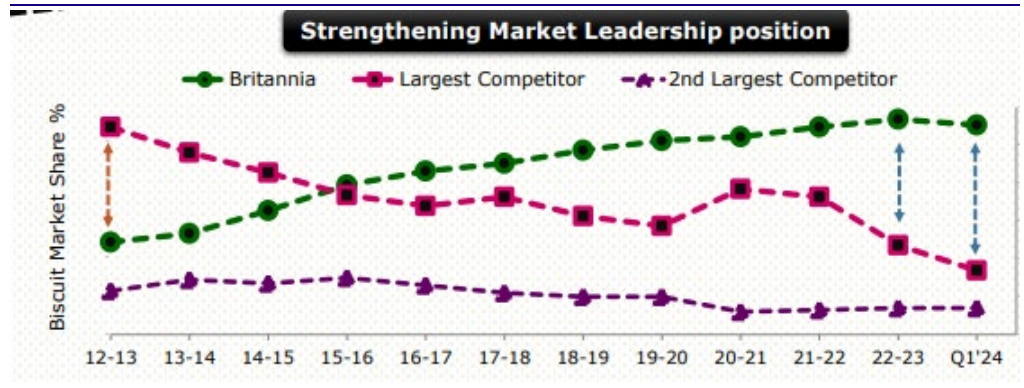
## Key exhibits

**Exhibit 1: Volumes from BRIT's base business flattish YoY in 1QFY24**



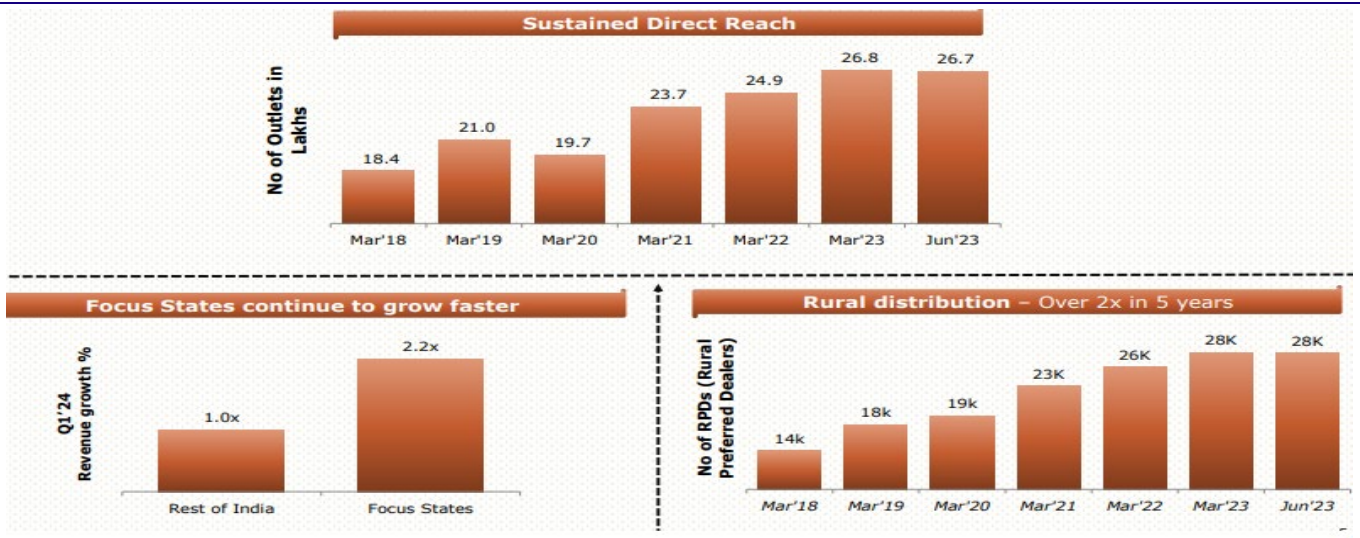
Source: Company, MOFSL

**Exhibit 2: Market share gap between BRIT and the second largest competitor widening**



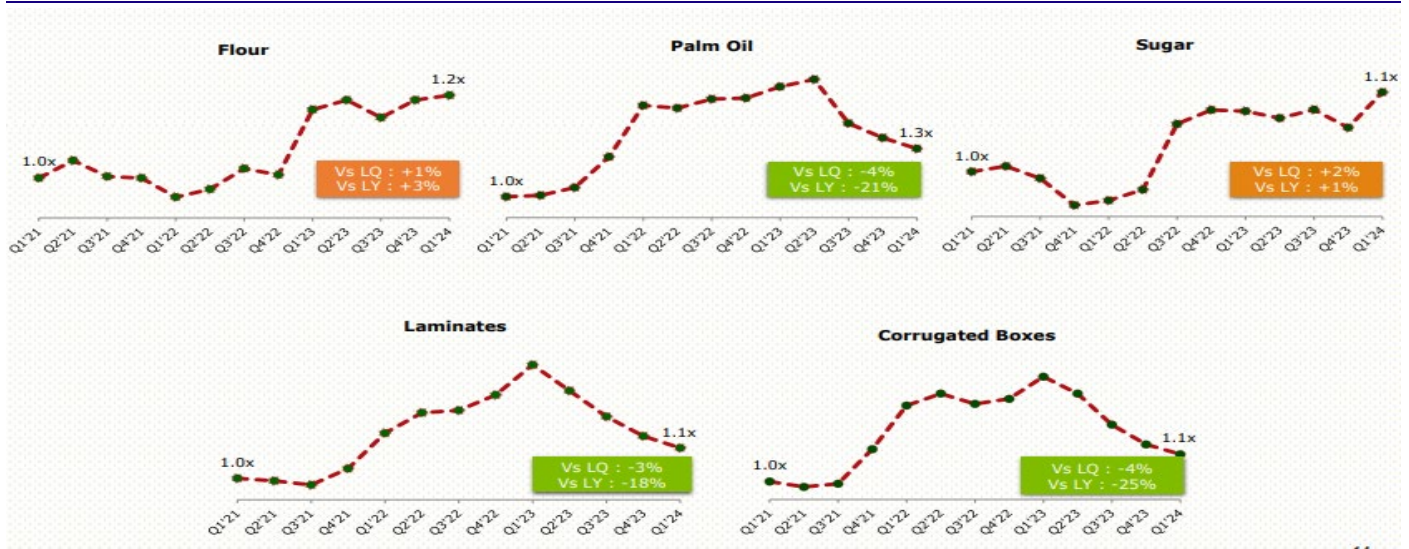
Source: Company presentation

**Exhibit 3: Strengthened rural distribution bolstered BRIT's rural market share**



Source: Company presentation

Exhibit 4: Flour and sugar prices rose while other input costs softened



Source: Company presentation



## Key takeaways from the management commentary

### Operating environment

- In 1QFY24, local regional players have increased their market share, leading to a further expansion of the gap between largest competitor and BRIT.
- Volume growth was flattish in tonnage terms in 1QFY24. Volumes grew 9% YoY in transaction terms.
- There is a slowdown in recovery in traditional trade in the rural market.
- Price cut of 1.8% taken in 1QFY24 to remain competitive. It will further take price cuts in future also.
- NPDs contributed 4% to the total revenue. It aims to increase this figure to 4-5% as it continues to scale up its efforts.
- NPDs in dairy portfolio contributed 10% of revenue.
- MT and E-commerce performed well.

### Input costs, pricing and margins

- Overall commodity cost remained stable in 1QFY24 as flour & sugar prices slightly increased while, prices of palm oil, laminates and corrugated boxes softened YoY.
- Government will take initiatives to calm sugar inflation while flour inflation needs to be monitored.
- A&P spend is 3.5-4.0% of revenue if exclude selling expenses. It will be 4.0-4.2% of revenue in FY24.
- ICD on Jun'23 stood at ~INR7.6b between Bombay Dyeing and Bombay Burmah.

### Segmental Performance

- Cake and Rusk portfolio was sluggish due to local players as there are 2,500 regional players across India.
- The management is optimistic on the cheese portfolio as it is strengthening its in-house production.
- Winkin's Cow showed healthy growth driven by distribution.

### International Markets

- The Middle East and Africa grew in double digits with improved margins.
- The rest of International business showed double-digit profitability led by America.
- Nepal continued to grow in high double-digit and expand margins.
- Egypt showcased high-double digit growth while Kenya stabilized.

### Other points

- BRIT is setting up factories in Barabanki, UP and Tirunelveli, Tamil Nadu in 1QFY24. Each will have five product lines.
- Tamil Nadu government gave incentive of INR70-80m in 1QFY24 and BRIT will further receive incentives from Tamil Nadu and UP governments.
- Capex for FY24 will be ~INR4-4.5b.
- The company had ~28,000 rural distributors in 1QFY24.
- The number of direct reach outlets now stands at 2.67m.
- The focused state has 2.2x higher growth than rest of India.

### Valuation and View

#### What happened in the last decade?

- The last decade that ended in FY23 was a phenomenal one for BRIT due to: a) huge market share gains, b) a strengthening distribution reach (particularly direct reach), and c) better product development than peers.
- The advantage of distribution network is particularly important for Foods players such as BRIT as the velocity of food consumption is much higher than personal care products. With the stated goal of being a total Foods player, the company's utilization would play a crucial role in its expansion to other foods sub-categories.
- BRIT's financial performance over the last decade has been splendid, with the company reporting a ~10% sales CAGR, as well as EBITDA and PAT CAGR of ~21-23% each. This is easily among the best of breed for the decade. Its financial performance over the past five years (ended FY23) has also been healthy – it has reported a sales/EBITDA/PAT CAGR of ~10.5%/~13.5%/~14% during the period.

#### Our view on the stock

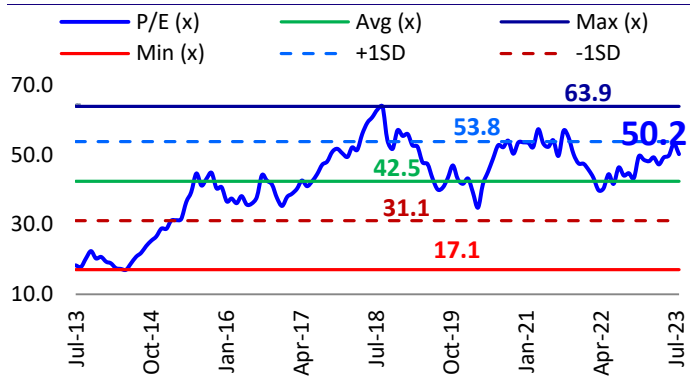
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**Exhibit 5: We cut our EPS estimates for FY24/FY25 by 2.6%/0.9%**

(INR b)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	177.9	197.4	178.2	197.8	-0.1	-0.2
EBITDA	31.4	35.6	31.7	36.0	-1.0	-1.1
Adjusted PAT	21.4	24.7	22.0	24.9	-2.6	-0.9

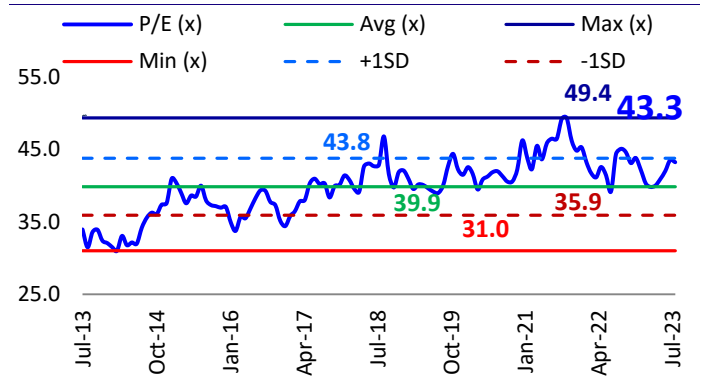
Source: Company, MOFSL

**Exhibit 6: BRIT's P/E (x)**



Source: MOFSL

**Exhibit 7: Consumer sector P/E (x)**



Source: MOFSL

## Financials and valuations

Income Statement								(INR b)
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Net Revenues</b>	<b>99.1</b>	<b>110.5</b>	<b>116.0</b>	<b>131.4</b>	<b>141.4</b>	<b>163.0</b>	<b>177.9</b>	<b>197.4</b>
Change (%)	9.5	11.5	4.9	13.2	7.6	15.3	9.2	11.0
<b>Gross Profit</b>	<b>38.1</b>	<b>44.9</b>	<b>46.7</b>	<b>55.1</b>	<b>53.8</b>	<b>67.1</b>	<b>74.4</b>	<b>83.1</b>
Margin (%)	38.4	40.6	40.3	41.9	38.0	41.2	41.8	42.1
Other Expenditure	18.9	22.6	23.5	25.5	27.6	32.0	34.7	38.0
<b>EBITDA</b>	<b>15.0</b>	<b>17.3</b>	<b>18.4</b>	<b>25.1</b>	<b>22.0</b>	<b>28.3</b>	<b>31.4</b>	<b>35.6</b>
Change (%)	17.5	15.4	6.3	36.1	-12.3	28.6	10.9	13.4
Margin (%)	15.1	15.7	15.9	19.1	15.6	17.4	17.6	18.0
Depreciation	1.4	1.6	1.8	2.0	2.0	2.3	3.0	3.5
Int. and Fin. Charges	0.1	0.1	0.8	1.1	1.4	1.7	2.0	2.1
Financial Other Income	1.7	2.1	2.8	3.1	2.2	2.2	2.6	3.2
<b>PBT</b>	<b>15.2</b>	<b>17.7</b>	<b>18.6</b>	<b>25.1</b>	<b>20.8</b>	<b>26.5</b>	<b>28.9</b>	<b>33.2</b>
Tax	5.1	6.0	4.5	6.6	6.1	7.2	7.5	8.5
Deferred Tax	0.0	0.1	0.0	0.1	-0.5	0.0	0.0	0.0
Tax Rate (%)	33.9	34.6	24.2	26.4	27.0	27.0	25.8	25.5
<b>PAT</b>	<b>10.0</b>	<b>11.6</b>	<b>14.1</b>	<b>18.5</b>	<b>15.2</b>	<b>19.4</b>	<b>21.4</b>	<b>24.7</b>
Change (%)	13.6	15.2	21.9	31.2	-18.0	27.6	10.8	15.3
Margin (%)	10.1	10.5	12.2	14.1	10.7	11.9	12.0	12.5
Non-rec. (Exp.)/Income	0.0	0.0	-0.2	0.0	0.0	3.8	0.0	0.0
<b>Reported PAT</b>	<b>10.0</b>	<b>11.6</b>	<b>13.9</b>	<b>18.5</b>	<b>15.2</b>	<b>23.2</b>	<b>21.4</b>	<b>24.7</b>

Balance Sheet								(INR b)
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Reserves	33.8	42.3	43.8	35.2	25.3	35.1	35.5	39.2
<b>Networth</b>	<b>34.1</b>	<b>42.5</b>	<b>44.0</b>	<b>35.5</b>	<b>25.6</b>	<b>35.3</b>	<b>35.8</b>	<b>39.5</b>
Minority Interest	0.1	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Loans	2.0	1.6	15.4	21.0	24.7	29.8	28.4	27.1
<b>Capital Employed</b>	<b>36.2</b>	<b>44.4</b>	<b>59.8</b>	<b>56.9</b>	<b>50.5</b>	<b>65.5</b>	<b>64.4</b>	<b>66.9</b>
Gross Block	15.6	20.6	24.8	26.2	28.1	39.5	44.0	48.0
Less: Accum. Depn.	-3.4	-5.0	-7.4	-9.6	-12.0	-14.2	-17.3	-20.8
<b>Net Fixed Assets</b>	<b>12.2</b>	<b>15.6</b>	<b>17.4</b>	<b>16.6</b>	<b>16.1</b>	<b>25.3</b>	<b>26.7</b>	<b>27.2</b>
Goodwill on consolidation	1.3	1.3	1.4	1.4	1.4	1.3	1.3	1.3
Capital WIP	2.0	1.0	0.4	1.2	5.4	1.1	2.0	2.0
Investments	10.8	14.8	28.9	27.8	17.6	33.2	31.5	32.9
Current	8.9	9.2	14.1	15.3	6.2	16.0	14.3	15.8
Non-current	1.9	5.6	14.8	12.6	11.4	17.2	17.2	17.2
Deferred Liability	-0.2	-0.1	-0.1	0.0	-0.5	-0.6	-0.6	-0.6
<b>Currents Assets</b>	<b>25.4</b>	<b>29.6</b>	<b>30.1</b>	<b>33.1</b>	<b>34.1</b>	<b>32.1</b>	<b>33.3</b>	<b>36.8</b>
Inventory	6.5	7.8	7.4	10.9	13.7	11.9	12.2	13.5
Account Receivables	3.0	3.9	3.2	2.6	3.3	3.3	4.0	4.8
Cash and Bank Balance	1.9	1.1	1.2	2.1	1.8	2.0	4.9	5.9
Others	13.9	16.8	18.3	17.5	15.3	14.9	12.3	12.7
<b>Curr. Liab. &amp; Prov.</b>	<b>15.7</b>	<b>18.0</b>	<b>18.5</b>	<b>23.1</b>	<b>24.6</b>	<b>28.1</b>	<b>30.9</b>	<b>33.9</b>
Account Payables	9.9	11.4	11.2	13.1	12.9	14.5	16.2	17.8
Other Liabilities	5.7	6.6	7.4	10.0	11.8	13.6	14.7	16.1
<b>Net Current Assets</b>	<b>9.7</b>	<b>11.7</b>	<b>11.6</b>	<b>10.0</b>	<b>9.5</b>	<b>4.1</b>	<b>2.4</b>	<b>2.9</b>
<b>Net Assets</b>	<b>36.2</b>	<b>44.4</b>	<b>59.8</b>	<b>56.9</b>	<b>50.5</b>	<b>65.5</b>	<b>64.4</b>	<b>66.9</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>								
EPS	41.8	48.1	58.6	76.8	63.0	80.3	89.0	102.6
BV/Share	141.9	177.0	183.1	147.3	106.2	146.7	148.4	163.8
DPS	12.5	15.0	35.0	62.0	56.5	72.0	75.6	87.2
Payout (%)	29.9	31.2	59.7	80.7	89.7	89.6	85.0	85.0
<b>Valuation (x)</b>								
P/E	111.4	96.8	79.5	60.7	74.0	58.0	52.4	45.4
EV/Sales	11.2	10.0	9.5	8.5	8.0	6.9	6.3	5.6
EV/EBITDA	73.8	63.8	60.0	44.4	51.2	39.5	35.5	31.2
P/BV	32.8	26.3	25.5	31.6	43.9	31.8	31.4	28.4
Dividend Yield	0.3	0.3	0.8	1.3	1.2	1.5	1.6	1.9
<b>Return Ratios (%)</b>								
RoE	32.9	30.2	32.6	46.5	49.7	63.5	60.3	65.7
RoCE	27.9	25.5	24.1	29.2	27.2	32.8	32.4	36.4
RoIC	41.5	41.9	44.3	61.9	56.7	69.3	76.1	91.7
<b>Working Capital Ratios</b>								
Debtor (Days)	11	13	10	7	9	7	8	9
Asset Turnover (x)	2.7	2.5	1.9	2.3	2.8	2.5	2.8	3.0
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.1	0.0	0.3	0.6	1.0	0.8	0.8	0.7

### Cash Flow Statement

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>(INR b)</b>								
OP Profit	15.2	17.7	18.4	25.1	20.8	30.3	28.9	33.2
Dep	1.4	1.6	1.8	2.0	2.0	2.3	3.0	3.5
Financial Other Income	-0.5	-0.5	-0.7	-0.5	-0.3	-4.1	-2.6	-3.2
Net Interest Paid	1.0	1.3	1.0	1.2	0.4	-0.1	2.0	2.1
Direct Taxes Paid	5.0	6.0	5.0	6.3	5.9	7.3	7.5	8.5
Inc in WC	-2.3	0.0	-1.3	0.3	3.3	-4.1	-4.5	-0.5
<b>CF from Operations</b>	<b>12.5</b>	<b>11.6</b>	<b>14.8</b>	<b>18.8</b>	<b>13.0</b>	<b>25.3</b>	<b>24.4</b>	<b>23.5</b>
(Inc)/Dec in FA	-4.2	-4.0	-2.4	-2.4	-5.5	-6.3	-5.5	-4.0
<b>Free Cash Flow</b>	<b>8.3</b>	<b>7.6</b>	<b>12.4</b>	<b>16.4</b>	<b>7.5</b>	<b>18.9</b>	<b>19.0</b>	<b>19.5</b>
(Pur.)/Sale of Investments	-5.4	-3.3	-13.3	1.8	10.5	-11.2	1.8	-1.5
Other Non Rec Exp	0.1	-1.5	0.4	5.1	4.2	2.7	3.8	7.3
<b>CF from Investments</b>	<b>-9.5</b>	<b>-8.8</b>	<b>-15.3</b>	<b>4.6</b>	<b>9.2</b>	<b>-14.8</b>	<b>0.2</b>	<b>1.8</b>
Issue of Shares	0.2	0.3	7.4	1.0	7.0	0.0	0.0	0.0
Inc in Debt	0.0	-0.4	-2.3	5.7	-3.4	5.3	-1.4	-1.3
Dividend Paid	3.2	3.5	4.3	28.2	24.8	13.6	18.2	21.0
Other Item	-0.7	-0.1	0.2	0.9	1.2	2.0	2.0	2.1
<b>CF from Fin. Activity</b>	<b>-2.3</b>	<b>-3.5</b>	<b>0.6</b>	<b>-22.4</b>	<b>-22.5</b>	<b>-10.3</b>	<b>-21.7</b>	<b>-24.4</b>
<b>Inc/Dec of Cash</b>	<b>0.7</b>	<b>-0.8</b>	<b>0.1</b>	<b>0.9</b>	<b>-0.3</b>	<b>0.1</b>	<b>2.9</b>	<b>1.0</b>
Add: Beginning Balance	1.2	1.9	1.1	1.2	2.1	1.8	2.0	4.9
<b>Closing Balance</b>	<b>1.9</b>	<b>1.1</b>	<b>1.2</b>	<b>2.1</b>	<b>1.8</b>	<b>2.0</b>	<b>4.9</b>	<b>5.9</b>

E: MOFSL Estimates

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Explanation of Investment Rating	
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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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