

July 20, 2024

## Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>2,992</b>		<b>3,017</b>	
Sales (Rs. m)	1,33,350	1,45,746	1,33,350	1,45,746
% Chng.	-	-	-	-
EBITDA (Rs. m)	16,669	19,676	17,792	19,747
% Chng.	(6.3)	(0.4)	-	-
EPS (Rs.)	164.3	213.7	185.1	215.5
% Chng.	(11.2)	(0.8)	-	-

### Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	1,13,149	1,19,435	1,33,350	1,45,746
EBITDA (Rs. m)	9,738	16,522	16,669	19,676
Margin (%)	8.6	13.8	12.5	13.5
Adj. PAT (Rs. m)	2,098	6,854	6,647	8,645
Adj. EPS (Rs.)	51.9	169.4	164.3	213.7
Gr. (%)	164.4	226.6	(3.0)	30.0
DPS (Rs.)	12.0	30.0	35.0	40.0
Yield (%)	0.5	1.1	1.3	1.5
RoE (%)	6.3	18.3	15.4	17.6
RoCE (%)	9.0	19.8	17.7	20.2
EV/Sales (x)	1.1	1.0	0.9	0.8
EV/EBITDA (x)	13.4	7.6	7.4	6.1
PE (x)	51.4	15.7	16.2	12.5
P/BV (x)	3.1	2.7	2.4	2.0

### Key Data

### CEAT.BO | CEAT IN

52-W High / Low	Rs.2,998 / Rs.2,055
Sensex / Nifty	80,623 / 24,529
Market Cap	Rs.108bn / \$ 1,289m
Shares Outstanding	40m
3M Avg. Daily Value	Rs.723.76m

### Shareholding Pattern (%)

Promoter's	47.21
Foreign	18.76
Domestic Institution	17.09
Public & Others	16.94
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	7.2	2.8	11.9
Relative	2.9	(8.6)	(6.9)

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## CEAT (CEAT IN)

**Rating: ACCUMULATE | CMP: Rs2,667 | TP: Rs2,992**

### Higher input cost dragged margins lower

#### Quick Pointers:

- Rise in natural and synthetic rubber prices impacts profitability
- Proactive price hikes implemented to combat rising input cost pressure

**CEAT's 1QFY25 revenue increased by 8.8% YoY, missing PLe/BBGe by 2%/8%. Growth in revenue was led by healthy demand in the replacement market. Despite pricing initiatives, rise in key input prices resulted in gross margin declining by 184bps YoY to 39.2%, against PLe/BBGe of 42%/40.8%. As a result, its EBITDA declined by 1.1% YoY to Rs3.8bn and margin contracted by 120bps YoY to 12% (PLe: 13.2%; BBGe: 14.4%).**

**The management indicated have increased the prices across its product portfolio and it would further be taking price hikes, which shall aid mitigate some of the input cost pressure; however, margin could continue to be in the similar profile given the significant rise in input cost and lag in passing on price hikes. Given the input cost pressure, we lower our EBITDA/EPS estimates by ~3/6% for the forecasted period. Overall, the demand momentum has remained stable, while the company's focus on scaling margin accretive products shall drive growth in the long term. We estimate its revenue/EBITDA/APAT to increase by 10.5%/9.1%/12.3% over FY24-26E. We retain our 'Accumulate' rating with a revised target price of Rs2,992 (previous Rs3,017) valuing it 14x on its FY26E EPS.**

- **Miss on estimates:** 1QFY25 revenue grew by 8.8% YoY to Rs31.9bn against PLe/BBGe of Rs32.7bn/Rs34.7bn. The company witnessed healthy demand in replacement as well as exports markets; however, OEM demand remained subdued. APAT grew by 4.7% YoY to Rs1.5bn, marginally higher than BBGe of Rs1.4bn, but 16.7% lower than our estimates due to miss on revenue estimates and rise in input cost impacting profitability.
- **Rise in key RM prices leads to contraction in margins:** Gross profit grew by 3.9% YoY to Rs12.5bn, lower than PLe/BBGe of Rs13.7bn/Rs14.1bn. Despite pricing initiatives implemented during the quarter, prices of key commodities like natural and synthetic rubber increased significantly which led its gross margin to decline by 184bps YoY to 39.2%. Consequently, EBITDA declined by 1.1% YoY to Rs3.8bn (PLe: Rs4.3bn; BBGe: Rs3.8bn), while margin contracted by 120bps YoY to 12%, recording the 3<sup>rd</sup> consecutive quarter of decline.
- **Price hike and margin outlook:** Given the significant rise in raw material prices, the management increased prices across the portfolio – by 2-3% for CVs, 2.5-3% for PVs & UVs and 1% for 2Ws. It would be further increasing the prices further in 2QFY25 to offset the rise in raw material costs. Due to the time lag in the implementation of price hikes and rubber prices trading at ~13 year' high, we believe the margin profile could remain impacted in the near term.

## Key Conference Call Highlights:

### Domestic business:

- Volume grew by ~9% YoY in 1QFY25, led by the replacement demand and exports, while OEM demand was modest, growing in low-single digits.
- FY25 growth is expected to be in double digits, driven by 2Ws/3Ws and farm segments, while PVs is likely to grow in mid-single digits.
- The management continues to improve its saliency in the premium segment, which shall aid in achieving better profitability and margin.
- Domestic rubber prices are currently trading 10-12% higher than the international prices. The rise in prices is due to an increase in the transit period of rubber from the international market. The management expects rubber prices to decline gradually post 2QFY25 once vessel transit time returns to normal levels.
- Rural demand is improving gradually, especially in 2Ws/3Ws and farm segments, which will drive growth.

### Exports:

- The company reported double-digit growth in its international business. The growth rate was slightly impacted by the rise in freight cost, by 2-3x towards the end of Jun'2024.
- The management retained its guidance of increasing the penetration of international revenue to 25% in the next 2-3 years as these markets are margin accretive.
- It is witnessing healthy demand in the replacement market in the EU and gaining market share gradually, while revival in OEM demand shall further push its growth.
- The management indicated a healthy order book in its international portfolio; it aims to increase prices post execution of its orders.
- Channel expansion in the US market is progressing well with strong growth on a low base. Export of PCR tires is expected to begin from 4QFY25/1QFY26.
- It launched ~40 off-highway and ~30 PV SKUs, mainly targeted towards the international markets.

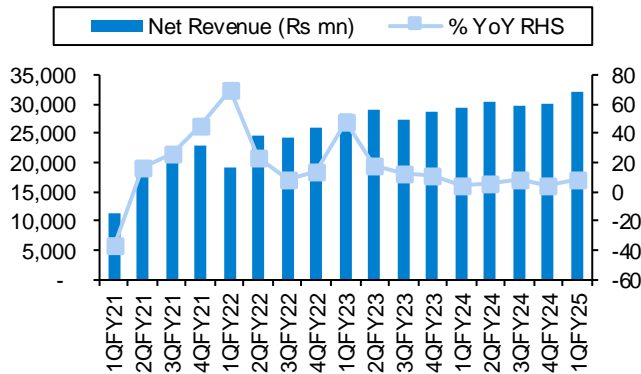
### Capex and R&D:

- For 1QFY25, capex stood at Rs2.5bn, of which majority was funded through internal accruals. For FY25, the company expects a capex of ~Rs10bn.
- The company will continue to invest in R&D to develop products majorly for the domestic market, through which it aims to increase its penetration and share in the domestic market.

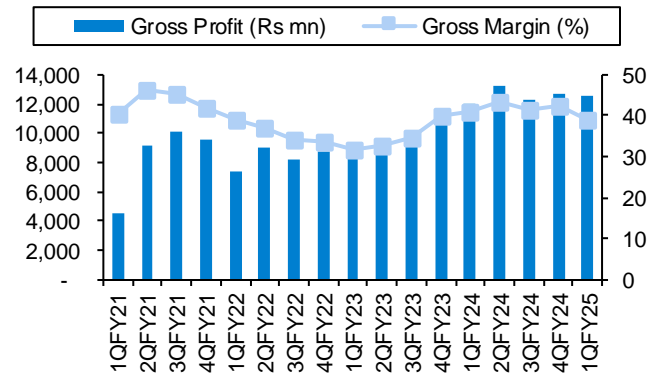
**Exhibit 1: 1QFY25 Result Overview (Rs mn)**

Y/e March	1QFY25	1QFY24	YoY gr. (%)	1QFY25E	% Var	4QFY24	QoQ gr. (%)	FY24	FY23	YoY gr. (%)
<b>Net Revenue</b>	<b>31,928</b>	<b>29,352</b>	<b>8.8</b>	<b>32,671</b>	<b>(2.3)</b>	<b>29,919</b>	<b>6.7</b>	<b>1,19,435</b>	<b>1,13,149</b>	<b>5.6</b>
Raw Materials	19,401	17,296	12.2	18,959	2.3	17,265	12.4	69,244	73,854	(6.2)
<i>% of Net Sales</i>	<i>60.8</i>	<i>58.9</i>		<i>58.0</i>		<i>57.7</i>		<i>58.0</i>	<i>65.3</i>	
Personnel	1,956	1,955	0.0	2,287	(14.5)	2,153	(9.1)	8,457	7,352	15.0
<i>% of Net Sales</i>	<i>6.1</i>	<i>6.7</i>		<i>7.0</i>		<i>7.2</i>		<i>7.1</i>	<i>6.5</i>	
Manufacturing & Other Exp	6,742	6,230	8.2	7,106	(5.1)	6,585	2.4	25,212	22,205	13.5
<i>% of Net Sales</i>	<i>21.1</i>	<i>21.2</i>		<i>21.8</i>		<i>22.0</i>		<i>21.1</i>	<i>19.6</i>	
<b>Total Expenditure</b>	<b>28,099</b>	<b>25,481</b>	<b>10.3</b>	<b>28,352</b>	<b>(0.9)</b>	<b>26,003</b>	<b>8.1</b>	<b>1,02,913</b>	<b>1,03,411</b>	<b>(0.5)</b>
<b>EBITDA</b>	<b>3,829</b>	<b>3,871</b>	<b>(1.1)</b>	<b>4,318</b>	<b>(11.3)</b>	<b>3,915</b>	<b>(2.2)</b>	<b>16,522</b>	<b>9,738</b>	<b>69.7</b>
<i>EBITDA Margin (%)</i>	<i>12.0</i>	<i>13.2</i>		<i>13.2</i>		<i>13.1</i>		<i>13.8</i>	<i>8.6</i>	
Depreciation	1,318	1,209	9.0	1,391	(5.3)	1,361	(3.2)	5,088	4,693	8.4
<b>EBIT</b>	<b>2,511</b>	<b>2,662</b>	<b>(5.7)</b>	<b>2,928</b>	<b>(14.2)</b>	<b>2,555</b>	<b>(1.7)</b>	<b>11,434</b>	<b>5,045</b>	<b>126.6</b>
Interest Expenses	619	701	(11.8)	600	3.1	617	0.3	2,691	2,421	11.1
Non-operating income	62	33	89.2	36	72.0	31	100.3	197	169	16.5
Extraordinary Expenses	75	-	-	-	-	(582)	-	(582)	(334)	-
<b>PBT</b>	<b>2,029</b>	<b>1,993</b>	<b>1.8</b>	<b>2,363</b>	<b>(14.2)</b>	<b>1,387</b>	<b>46.3</b>	<b>8,359</b>	<b>2,459</b>	<b>239.9</b>
Tax-Total	540	529	2.1	591	(8.6)	458	17.8	2,214	718	208.6
<i>Tax Rate (%) - Total</i>	<i>26.6</i>	<i>26.5</i>		<i>25.0</i>		<i>33.0</i>		<i>26.5</i>	<i>29.2</i>	
PAT before MI & associates	1,489	1,464	1.7	1,773	(16.0)	929	60.3	6,145	1,742	252.8
Minority Interest	0	(6)	-	(6)	-	(63)	-	(74)	(38)	-
Profit / loss of associates	53	(24)	(320.4)	50	5.8	94	(43.7)	208	82	153.0
<b>Adj. PAT</b>	<b>1,487</b>	<b>1,446</b>	<b>2.8</b>	<b>1,829</b>	<b>(18.7)</b>	<b>1,475</b>	<b>0.8</b>	<b>6,854</b>	<b>2,098</b>	<b>226.6</b>

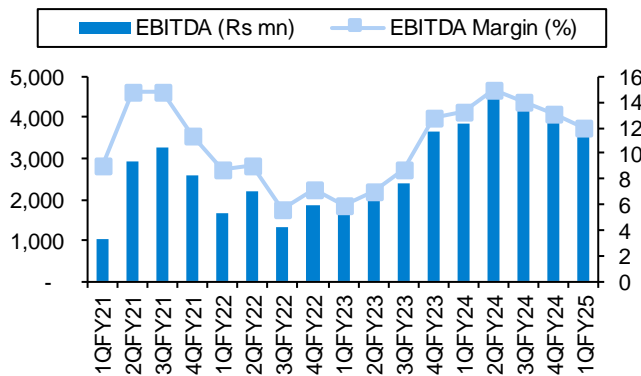
Source: Company, PL

**Exhibit 2: Revenue up 8.8% YoY led by replacement demand**


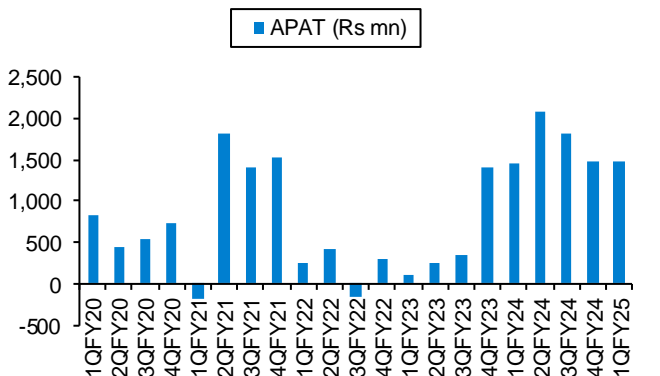
Source: Company, PL

**Exhibit 3: Higher input cost drags margins**


Source: Company, PL

**Exhibit 4: 3<sup>rd</sup> consecutive quarter of margin contraction**


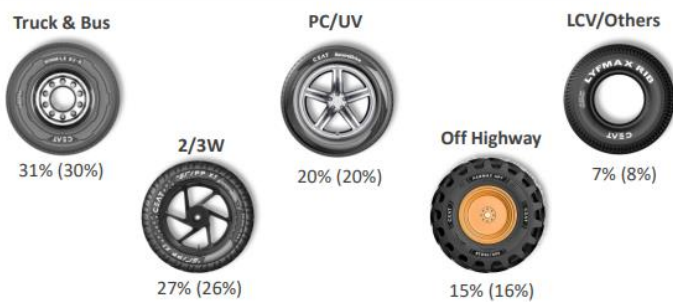
Source: Company, PL

**Exhibit 5: APAT remained flat sequentially**


Source: Company, PL

**Exhibit 6: Revenue mix remains stable**

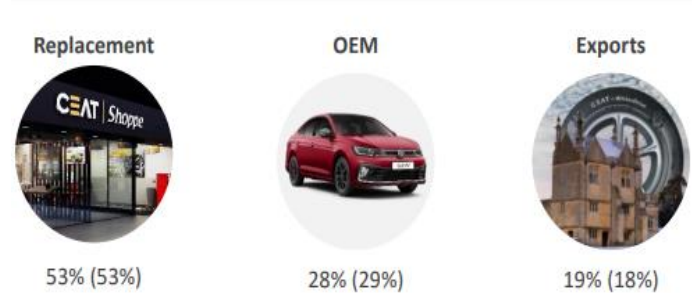
### Diversified Product Mix <sup>1</sup>



Source: Company

**Exhibit 7: 25% exports contribution targeted in 2-3 years**

### Balanced Market Mix <sup>1</sup>



Source: Company

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>1,13,149</b>	<b>1,19,435</b>	<b>1,33,350</b>	<b>1,45,746</b>
YoY gr. (%)	20.8	5.6	11.7	9.3
Cost of Goods Sold	73,854	69,244	79,010	85,626
Gross Profit	39,295	50,191	54,340	60,120
Margin (%)	34.7	42.0	40.8	41.3
Employee Cost	7,352	8,457	8,668	9,473
Other Expenses	22,205	25,212	29,004	30,971
<b>EBITDA</b>	<b>9,738</b>	<b>16,522</b>	<b>16,669</b>	<b>19,676</b>
YoY gr. (%)	37.2	69.7	0.9	18.0
Margin (%)	8.6	13.8	12.5	13.5
Depreciation and Amortization	4,693	5,088	6,073	6,723
<b>EBIT</b>	<b>5,045</b>	<b>11,434</b>	<b>10,595</b>	<b>12,952</b>
Margin (%)	4.5	9.6	7.9	8.9
Net Interest	2,421	2,691	2,199	1,939
Other Income	169	197	290	330
<b>Profit Before Tax</b>	<b>2,459</b>	<b>8,359</b>	<b>8,686</b>	<b>11,343</b>
Margin (%)	2.2	7.0	6.5	7.8
Total Tax	718	2,214	2,189	2,859
Effective tax rate (%)	29.2	26.5	25.2	25.2
<b>Profit after tax</b>	<b>1,742</b>	<b>6,145</b>	<b>6,497</b>	<b>8,485</b>
Minority interest	(38)	(74)	-	-
Share Profit from Associate	82	208	150	160
<b>Adjusted PAT</b>	<b>2,098</b>	<b>6,854</b>	<b>6,647</b>	<b>8,645</b>
YoY gr. (%)	164.4	226.6	(3.0)	30.0
Margin (%)	1.9	5.7	5.0	5.9
Extra Ord. Income / (Exp)	237	428	-	-
<b>Reported PAT</b>	<b>1,862</b>	<b>6,427</b>	<b>6,647</b>	<b>8,645</b>
YoY gr. (%)	161.5	245.2	3.4	30.0
Margin (%)	1.6	5.4	5.0	5.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,862	6,427	6,647	8,645
<b>Equity Shares O/s (m)</b>	<b>40</b>	<b>40</b>	<b>40</b>	<b>40</b>
<b>EPS (Rs)</b>	<b>51.9</b>	<b>169.4</b>	<b>164.3</b>	<b>213.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	-	-	-	-
Tangibles	81,599	88,437	98,437	1,08,437
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	-	-	-	-
Tangibles	(20,638)	(25,727)	(31,800)	(38,523)
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>60,961</b>	<b>62,711</b>	<b>66,637</b>	<b>69,914</b>
Tangibles	60,961	62,711	66,637	69,914
Intangibles	-	-	-	-
Capital Work In Progress	5,961	6,835	8,202	9,433
Goodwill	-	-	-	-
Non-Current Investments	1,696	1,821	1,821	2,094
Net Deferred tax assets	(3,886)	(4,509)	(4,284)	(4,070)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	11,378	11,505	13,518	14,774
Trade receivables	13,070	12,832	14,327	15,659
Cash & Bank Balance	719	591	(115)	2,241
Other Current Assets	1,962	2,886	3,175	3,492
<b>Total Assets</b>	<b>96,278</b>	<b>99,945</b>	<b>1,08,443</b>	<b>1,18,618</b>
<b>Equity</b>				
Equity Share Capital	405	405	405	405
Other Equity	33,992	40,022	45,253	52,280
<b>Total Network</b>	<b>34,396</b>	<b>40,426</b>	<b>45,658</b>	<b>52,685</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	22,955	17,915	15,915	13,915
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	22,683	23,321	26,670	29,549
Other current liabilities	12,184	13,676	15,820	18,303
<b>Total Equity &amp; Liabilities</b>	<b>96,278</b>	<b>99,945</b>	<b>1,08,443</b>	<b>1,18,618</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	5,165	11,716	10,745	13,112
Add. Depreciation	4,693	5,088	6,073	6,723
Add. Interest	169	197	290	330
Less Financial Other Income	169	197	290	330
Add. Other	(334)	(582)	-	-
Op. profit before WC changes	9,693	16,420	17,109	20,166
Net Changes-WC	2,220	1,085	1,581	2,324
Direct tax	(9)	(1,591)	(2,414)	(3,073)
<b>Net cash from Op. activities</b>	<b>11,904</b>	<b>15,913</b>	<b>16,276</b>	<b>19,417</b>
Capital expenditures	(9,634)	(7,713)	(11,367)	(11,230)
Interest / Dividend Income	-	-	-	-
Others	96	(125)	-	(273)
<b>Net Cash from Invt. activities</b>	<b>(9,538)</b>	<b>(7,838)</b>	<b>(11,367)</b>	<b>(11,503)</b>
Issue of share cap. / premium	230	740	-	-
Debt changes	666	(5,040)	(2,000)	(2,000)
Dividend paid	(485)	(1,214)	(1,416)	(1,618)
Interest paid	(2,421)	(2,691)	(2,199)	(1,939)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,010)</b>	<b>(8,204)</b>	<b>(5,615)</b>	<b>(5,557)</b>
<b>Net change in cash</b>	<b>356</b>	<b>(128)</b>	<b>(706)</b>	<b>2,357</b>
Free Cash Flow	2,270	8,201	4,909	8,187

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	51.9	169.4	164.3	213.7
CEPS	167.9	295.2	314.5	379.9
BVPS	850.3	999.4	1,128.7	1,302.5
FCF	56.1	202.7	121.3	202.4
DPS	12.0	30.0	35.0	40.0
<b>Return Ratio(%)</b>				
RoCE	9.0	19.8	17.7	20.2
ROIC	6.4	14.7	13.2	15.7
RoE	6.3	18.3	15.4	17.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.6	0.4	0.4	0.2
Net Working Capital (Days)	6	3	3	2
<b>Valuation(x)</b>				
PER	51.4	15.7	16.2	12.5
P/B	3.1	2.7	2.4	2.0
P/CEPS	15.9	9.0	8.5	7.0
EV/EBITDA	13.4	7.6	7.4	6.1
EV/Sales	1.1	1.0	0.9	0.8
Dividend Yield (%)	0.5	1.1	1.3	1.5

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Net Revenue</b>	<b>30,533</b>	<b>29,631</b>	<b>29,919</b>	<b>31,928</b>
YoY gr. (%)	5.5	8.7	4.1	4.6
Raw Material Expenses	17,298	17,385	17,265	19,401
Gross Profit	13,236	12,246	12,653	12,527
Margin (%)	43.3	41.3	42.3	39.2
<b>EBITDA</b>	<b>4,561</b>	<b>4,175</b>	<b>3,915</b>	<b>3,829</b>
YoY gr. (%)	124.5	75.7	6.4	(16.1)
Margin (%)	14.9	14.1	13.1	12.0
Depreciation / Depletion	1,245	1,273	1,361	1,318
<b>EBIT</b>	<b>3,316</b>	<b>2,902</b>	<b>2,555</b>	<b>2,511</b>
Margin (%)	10.9	9.8	8.5	7.9
Net Interest	717	656	617	619
Other Income	105	29	31	62
<b>Profit before Tax</b>	<b>2,704</b>	<b>2,276</b>	<b>1,387</b>	<b>2,029</b>
Margin (%)	8.9	7.7	4.6	6.4
Total Tax	683	544	458	540
Effective tax rate (%)	25.3	23.9	33.0	26.6
<b>Profit after Tax</b>	<b>2,021</b>	<b>1,731</b>	<b>929</b>	<b>1,489</b>
Minority interest	(3)	(2)	(63)	-
Share Profit from Associates	56	82	94	53
<b>Adjusted PAT</b>	<b>2,080</b>	<b>1,815</b>	<b>1,475</b>	<b>1,487</b>
YoY gr. (%)	1,181.8	408.1	5.4	(28.5)
Margin (%)	6.8	6.1	4.9	4.7
Extra Ord. Income / (Exp)	-	-	390	(55)
<b>Reported PAT</b>	<b>2,080</b>	<b>1,815</b>	<b>1,086</b>	<b>1,542</b>
YoY gr. (%)	2,556.4	412.8	(18.8)	(25.9)
Margin (%)	6.8	6.1	3.6	4.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,080</b>	<b>1,815</b>	<b>1,086</b>	<b>1,542</b>
Avg. Shares O/s (m)	40	40	40	40
<b>EPS (Rs)</b>	<b>51.4</b>	<b>44.9</b>	<b>36.5</b>	<b>36.8</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-24	Accumulate	3,017	2,693
2	04-May-24	BUY	3,017	2,545
3	08-Apr-24	Accumulate	2,980	2,686
4	05-Mar-24	Accumulate	2,980	2,870
5	26-Jan-24	Accumulate	2,980	2,830
6	08-Jan-24	Accumulate	2,640	2,443
7	17-Oct-23	Accumulate	2,515	2,195
8	09-Oct-23	Accumulate	2,450	2,125
9	26-Jul-23	Hold	2,430	2,496

## Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Aarti Industries	Reduce	634	718
2	Ashok Leyland	Accumulate	249	230
3	Bajaj Auto	Accumulate	10,326	9,718
4	Bharat Forge	Hold	1,615	1,672
5	Bharat Petroleum Corporation	Reduce	269	307
6	Bharti Airtel	Accumulate	1,618	1,430
7	CEAT	Accumulate	3,017	2,693
8	Clean Science and Technology	Hold	1,489	1,482
9	Deepak Nitrite	Reduce	2,268	2,677
10	Divgi Torqtransfer Systems	Accumulate	831	742
11	Eicher Motors	BUY	5,335	4,737
12	Endurance Technologies	Hold	2,664	2,735
13	Exide Industries	Hold	559	568
14	Fine Organic Industries	Accumulate	5,685	5,337
15	GAIL (India)	Sell	170	223
16	Gujarat Fluorochemicals	Reduce	2,775	3,250
17	Gujarat Gas	Accumulate	623	645
18	Gujarat State Petronet	BUY	409	311
19	Hero Motocorp	Accumulate	5,914	5,558
20	Hindustan Petroleum Corporation	Sell	280	332
21	Indian Oil Corporation	Reduce	151	171
22	Indraprastha Gas	Sell	374	522
23	Jubilant Ingrevia	Hold	592	586
24	Laxmi Organic Industries	Sell	206	264
25	Mahanagar Gas	Sell	1,303	1,685
26	Mahindra & Mahindra	BUY	3,250	2,881
27	Mangalore Refinery & Petrochemicals	Sell	135	218
28	Maruti Suzuki	BUY	14,432	12,104
29	Navin Fluorine International	Accumulate	3,883	3,659

## PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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