

October 17, 2024

Company Update

■ Change in Estimates | ■ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		ACCUMULATE	
Target Price	250		250	
Sales (Rs. m)	44,483	50,752	44,483	50,752
% Chng.	-	-	-	-
EBITDA (Rs. m)	5,760	7,148	5,760	7,148
% Chng.	-	-	-	-
EPS (Rs.)	10.3	12.5	10.3	12.5
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	32,809	35,359	44,483	50,752
EBITDA (Rs. m)	2,971	4,051	5,760	7,148
Margin (%)	9.1	11.5	12.9	14.1
PAT (Rs. m)	4,034	4,204	5,770	7,033
EPS (Rs.)	7.2	7.5	10.3	12.5
Gr. (%)	16.5	4.2	37.3	21.9
DPS (Rs.)	3.0	3.4	4.6	5.6
Yield (%)	1.6	1.8	2.5	3.0
RoE (%)	19.1	17.7	21.8	23.5
RoCE (%)	12.3	15.3	20.0	22.2
EV/Sales (x)	2.8	2.6	2.0	1.7
EV/EBITDA (x)	31.0	22.5	15.4	12.2
PE (x)	26.2	25.1	18.3	15.0
P/BV (x)	4.7	4.2	3.8	3.3

Key Data

ENGI.BO | ENGR IN

52-W High / Low	Rs.304 / Rs.116
Sensex / Nifty	81,007 / 24,750
Market Cap	Rs.106bn / \$ 1,256m
Shares Outstanding	562m
3M Avg. Daily Value	Rs.1316.82m

Shareholding Pattern (%)

Promoter's	51.32
Foreign	7.26
Domestic Institution	13.89
Public & Others	27.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(12.2)	(10.7)	35.9
Relative	(9.9)	(19.6)	11.5

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Gearing up for a large project pipeline in India

We upgrade Engineers India (EIL) to 'Buy' from 'Accumulate' given the recent correction in the stock price, with an unchanged SoTP-derived TP of Rs250, valuing the Consultancy/Turnkey segments at a P/E of 25x/10x on FY26E. EIL is well-positioned to capitalize on the large pipeline of refinery & petrochemical capex in India, which is driven by rising oil & petchem demand and the government's focus on reducing petchem imports. The company is also strongly focused on enhancing its green energy business by engaging in projects in green hydrogen & ammonia production, biofuels, and coal gasification. It also aims to diversify its business towards non-oil segments such as infrastructure. Meanwhile, on the international front, EIL is focusing on key oil & gas markets such as the Middle East and Africa. Increased execution of a strong order book worth over Rs110bn, and rising share of high-margin Consultancy segment in the mix will aid EIL's profitability. However, the pace of execution will be a key monitorable.

We believe EIL's long-term growth prospects remain intact given the 1) healthy order book & project pipeline, 2) opportunities in energy transition, 3) growing exports business, and 4) lean balance sheet. The stock is trading at a P/E of 28.2x/20.5x on core FY25/26E EPS. Upgrade to 'Buy'.

EIL eyeing large orders in refineries & petrochemicals: To cater to rising domestic oil demand, several refinery expansion projects cumulatively over 60mn MTPA are underway/planned in India to increase capacity from 256.8mn MTPA to a target of 309.5mn MTPA by 2028. Petrochemicals are a major driver of oil demand given their wide use across industries such as plastics, fertilizers, packaging, medical equipment, vehicle parts and rubber. With imports contributing 20-30% of petrochemical consumption, the government is pushing to promote domestic production to trim the import bill of over Rs1trn. Overall, the refinery and petrochemicals project pipeline is estimated at ~Rs5trn for the next 6-7 years. EIL has already worked on 20 out of the 23 refineries and 10 out of the 11 petrochemical complexes in India, so it is well-positioned to earn a share of the orders.

Capitalizing on growing opportunities in energy transition: Government programs such as the National Green Hydrogen Mission, National Coal Gasification Mission, and Ethanol Blended Petrol Programme, are driving significant decarbonization opportunities in India. EIL is already providing services to companies engaged in projects in these segments. Green energy accounts for 8-10% of the company's revenue, and EIL aims to increase this share to 10-12% in the near-to-medium term.

Focusing on key oil & gas markets to expand overseas business: EIL is channeling its focus on enhancing its presence in important oil & gas markets such as UAE, Nigeria, Algeria, Saudi Arabia, and Latin America, which have healthy project pipelines. The company's ~Rs16bn overseas order book, uptick in order intake (~Rs13bn since FY24) and efforts to expand its geographic presence offer strong business visibility in the medium term.

Strong order book & pipeline provide revenue visibility: Having booked orders worth ~Rs47bn in FY25YTD, EIL has already met its full year guidance of Rs45-50bn. This has pushed the order book beyond Rs110bn, providing strong revenue visibility over the next 3 years. Furthermore, increased scale of execution on the large order book, along with rising revenue share of the higher margin Consultancy segment, will improve profitability.

Key Investment Arguments

EIL eyeing large orders in refineries & petrochemicals

~Rs5trn capex pipeline in refineries & petchem in India over 6-7 years

Expansion of refineries to cater to growing domestic oil demand

As per the International Energy Agency, India is set to be the largest driver of global oil demand, with ~3% CAGR over 2023-2030, accounting for over 1/3rd of the estimated incremental global demand of ~159mn MT (~3.2mn bpd). Growth is will be driven by rising urbanization, manufacturing activity, transportation demand, and infrastructure development.

In order to cater to the increasing demand, the country will need to expand its refining capacity, which stands at 256.8mn MT. The government targets to increase this to ~309.5mn MT by 2028, implying ~53mn MT of capacity addition in the next 4 years. **Construction of ~46mn MTPA refinery capacity is already underway with over Rs1.1trn of the estimated expenditure yet to be incurred, while another 18-21mn MTPA has been proposed at an outlay of Rs1.2-1.3trn.**

Domestic petchem complexes being set up to substitute imports

Going forward, global oil demand will be driven by petrochemicals given their wide applications in plastics, fertilizers, packaging, clothing, digital devices, medical equipment, detergents, tires, solar panels, wind turbine blades, batteries, thermal insulation for buildings, and electric vehicle parts. **Petrochemicals are expected to contribute for more than 1/3rd of the increase in global oil demand by 2030.**

The domestic petchem industry is expected to grow at a CAGR of 10-11% to reach ~\$100bn by 2027. Imports account for 20-30% of total petchem consumption volumes in India, contributing over ~Rs1trn to the country's import bill. Therefore, the government is pushing for domestic production with policies such as 1) 100% FDI via the automatic route, 2) setting up of plastic parks and 3) revised Petroleum, Chemical, and Petrochemical Investment Regions policy, with an aim to attract total investment of Rs10trn by 2025, Rs15trn by 2030, and Rs20trn by 2035. **~Rs0.7trn capex is yet to be incurred on ongoing petchem projects in the country, while another ~Rs2trn worth of projects have been lined up by oil & gas majors.**

Exhibit 1: ~Rs5trn capex anticipated over the next 6-7 years

Upcoming Refinery & Petchem Capex	Capex (Rs trn)
IOCL	1.1
CPCL	0.4
HPCL	0.3
BPCL	1.0
Numaligarh	0.1
ONGC	1.0
Reliance	0.5
GAIL	0.6
Total	5.0

Source: Industry, PL

EIL is well-positioned to capture a share of the ~Rs5trn capex pipeline

EIL has a strong track record in offering both consultancy and turnkey solutions in India's oil refineries and petrochemical complexes, positioning it well to capture a share of the ~Rs5trn pipeline:

- The company has provided services in 20 out of the 23 refineries and engineered 10 greenfield refineries in India.
- It has helped establish 10 out of the 11 mega petrochemical complexes in the country.

Furthermore, EIL has already been contracted to supply consultancy services for ongoing refinery & petchem projects, including BPCL's Bina expansion, HPCL's Barmer project, Numaligarh refinery expansion, CPCL's Cauvery Basin greenfield refinery, and IOCL's Panipat, Barauni and Gujarat expansion projects. Therefore, it is well-positioned to win repeat orders as these projects progress further.

Exhibit 2: EIL's vast footprint in the domestic oil & gas sector

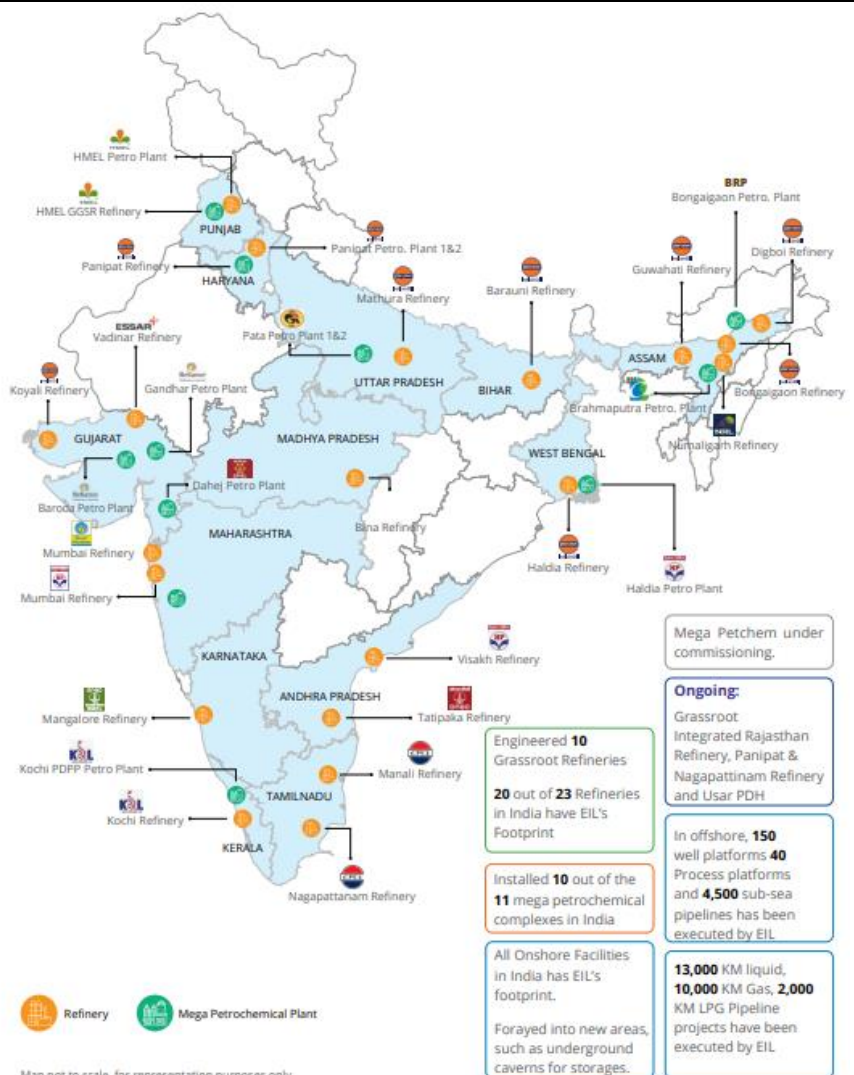
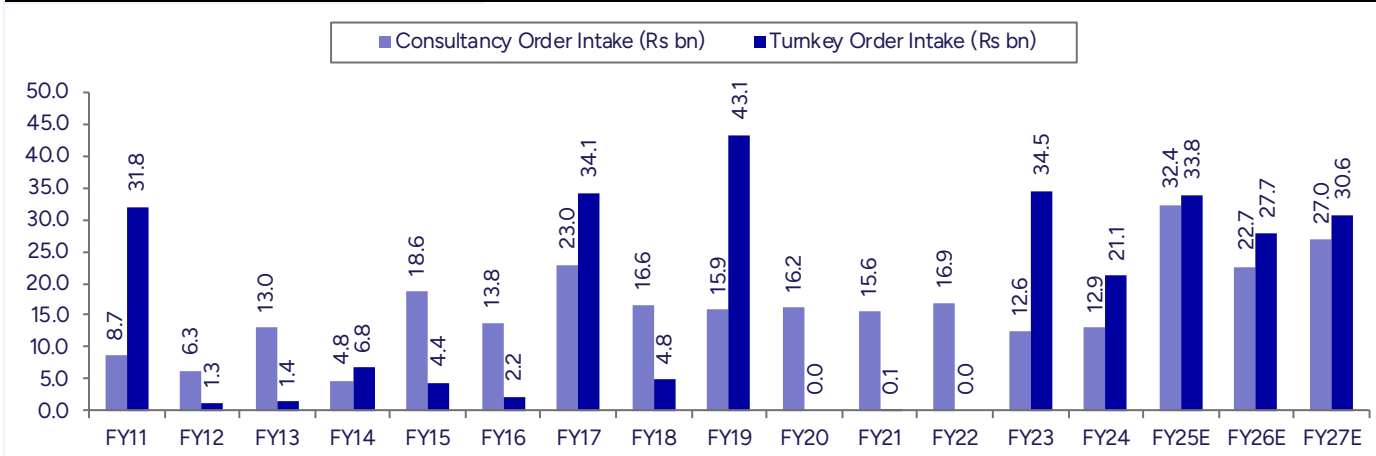


Exhibit 3: Order intake in Consultancy/Turnkey segments to clock ~28%/13% CAGR over FY24-27E



Source: Company, PL

Capitalizing on growing opportunities in energy transition

EIL is capitalizing on the rapidly rising trend of energy transition, with a focus on areas such as green hydrogen & ammonia production, biofuels (ethanol, SAF), and coal gasification. The company's green energy business contributes to 8-10% of revenue, which it aims to increase to 10-12% in the near-to-medium term.

Exhibit 4: EIL is expanding its presence in energy transition

Green Business Area	Drivers	EIL initiatives
Green Hydrogen & Ammonia	India's National Green Hydrogen Mission, which aims to establish the country as a green hydrogen hub with a target of 5mn MTPA annual production capacity by 2030 and an envisaged capex outlay of ~Rs8trn from both public & private enterprises	Providing consultancy services to several clients in India, such as GAIL, BPCL, Adani, HMEL and NLC, for green hydrogen/ammonia production via water electrolysis
Biofuels	<ul style="list-style-type: none"> - Ethanol blending target of 20% by end of 2026 - SAF-blending target of 1% by 2027, 2% by 2028 	<ul style="list-style-type: none"> - Providing EPCM services for Assam Bio Refinery's 2G ethanol project - Carried out feasibility studies for setting up 2G ethanol plants across India by major OMCs for a diverse range of feedstocks
Coal Gasification	India's Coal Gasification Scheme with an aim to gasify 100MT of coal by 2030, with Rs85bn total financial incentive offered across projects	<ul style="list-style-type: none"> - Co-developed a novel fluidized bed gasifier with BPCL for co-processing high ash Indian coal and petcoke to produce synthesis gas as product - Project management consultant for pre-award activities for India's first lignite to methanol project of NLC India - Conducting feasibility studies for NRL's and SCCL's coal gasification projects

Source: Company, Industry, PL

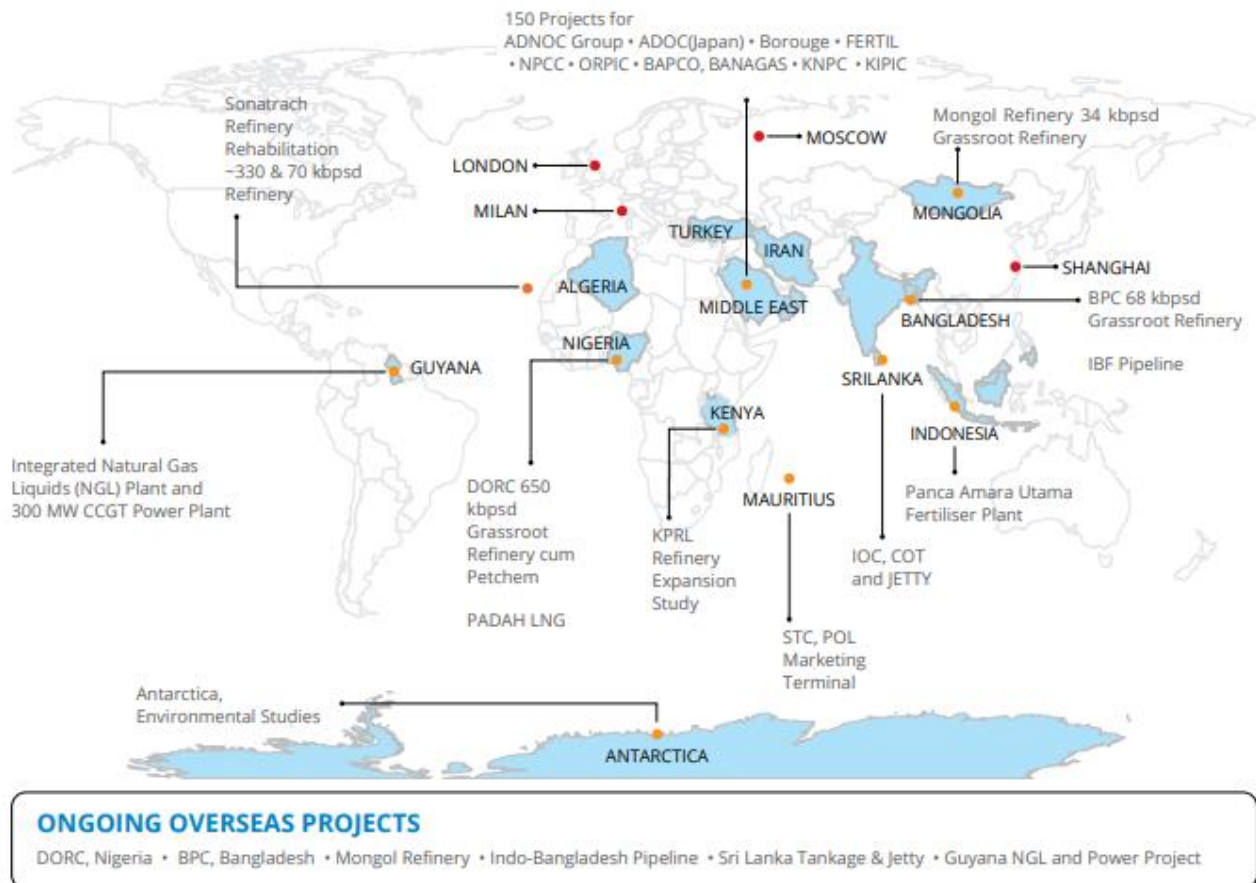
Focusing on key oil & gas markets to expand overseas business

EIL has established a healthy presence in international markets, providing Consultancy services in regions such as Middle East, Africa, South East Asia, and Latin America.

- **Middle East is a key focus region for the company, particularly UAE:** EIL secured multiple contracts in UAE in FY24, and is targeting additional larger-size orders in the region. Strategically, the company has strengthened its Abu Dhabi office to cater to the slate of new projects. It is looking to establish UAE as the company's hub for engineering activities in the Middle East region. Furthermore, it is focusing on other major oil & gas markets such as Saudi Arabia, Kuwait, and Oman.

- **Africa:** In Nigeria, EIL is executing EPCM services for the prestigious Dangote Refinery & Petrochemical Project (DORC), and anticipates further opportunities from DORC in the future. It also secured a ~Rs480mn fertilizer project in Nigeria in 2023 and is expecting large contracts from a major petrochemical project this year. Furthermore, the company reestablished its presence in Algeria with 2 orders and expects additional opportunities as the market revives. It is also looking to make inroads into Ghana and Egypt. The overall pipeline in Africa is healthy, but EIL will prioritize well-established clients where certainty of payments is higher.
- **Latin America:** EIL established presence in LatAm with a maiden Rs1.8bn contract in the fast-growing Guyana market. It is also targeting entry into regions like Mexico and Puerto Rico to expand its overall geographic reach.

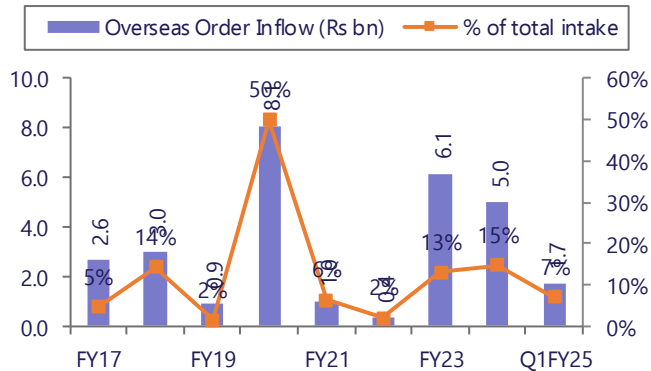
Exhibit 5: EIL's international footprint



Source: Company, PL

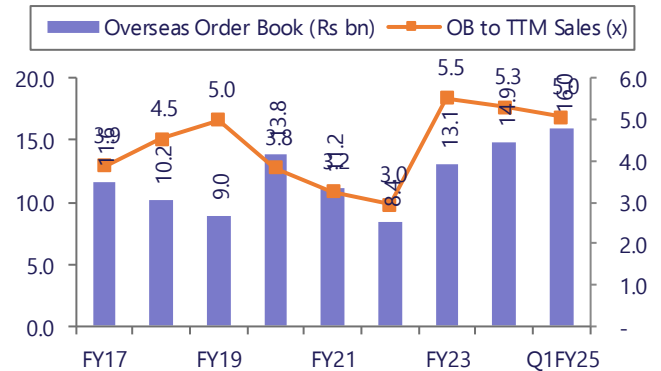
EIL's international order booking has picked up strongly in recent times, with the company having secured ~Rs13bn worth of orders over the past 9 quarters at an average of ~Rs1.4bn per quarter – 1.5x the average of Rs0.9bn over FY16-20 (pre-COVID). Consequently, as of Q1FY25, EIL's overseas order book stands at a record high of ~Rs16bn (5x TTM overseas revenue), accounting for 17% of the total order book. This provides solid revenue visibility over the medium term, which is further bolstered by a healthy pipeline in EIL's target markets and the company's initiatives to expand its geographical presence.

Exhibit 6: Rs12.8bn orders since FY23 vs Rs13.4bn over FY18-22



Source: Company, PL

Exhibit 7: Overseas order book hit a record high in Q1FY25

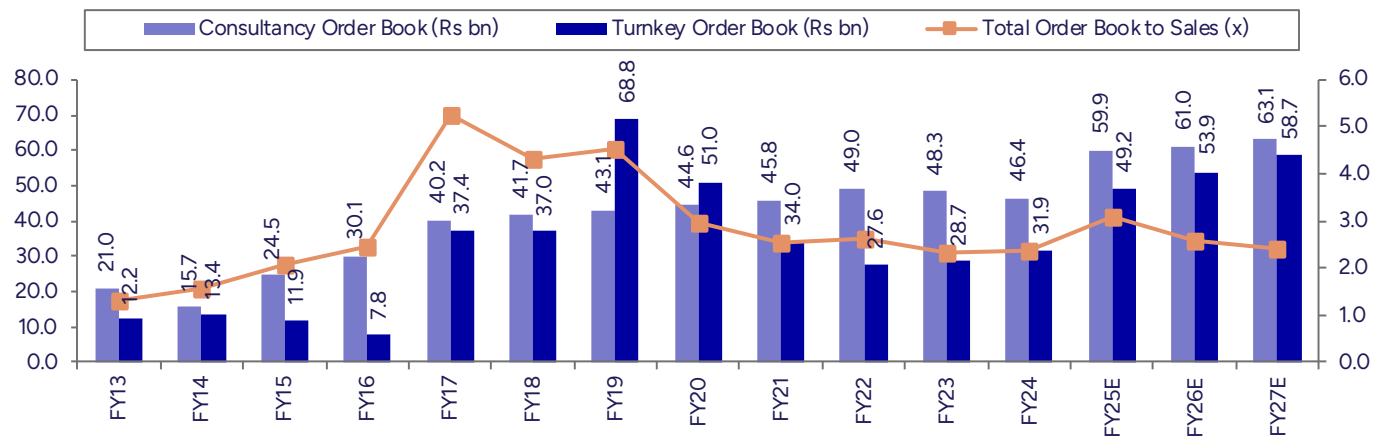


Source: Company, PL

Strong order book & pipeline provide revenue visibility

EIL's current order book stands at over Rs110bn with the company booking orders worth ~Rs47bn in FY25YTD, meeting its order inflow target of Rs45-50bn for FY25. Management expects another Rs20-30bn of order intake in FY25 given the huge pipeline of projects. This provides strong visibility on revenue growth over the next few years. We expect revenue to grow at a 16% CAGR over FY24-27E, with 18%/13% revenue CAGR in the Consultancy/Turnkey segments.

Exhibit 8: EIL's total order book has crossed Rs110bn, and is likely to sustain above this level over FY25-27E

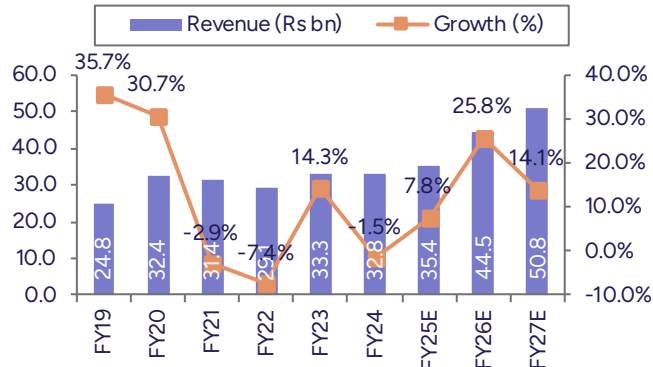


Source: Company, PL

Increased scale of execution on the large order book, along with the mix shifting towards the higher margin Consultancy segment, will enable better profitability. We estimate EBITDA margin to improve by ~500bps to 14.1% by FY27E, which will help drive adj. PAT (ex. JVs & Associates) CAGR of 30% over FY24-27E.

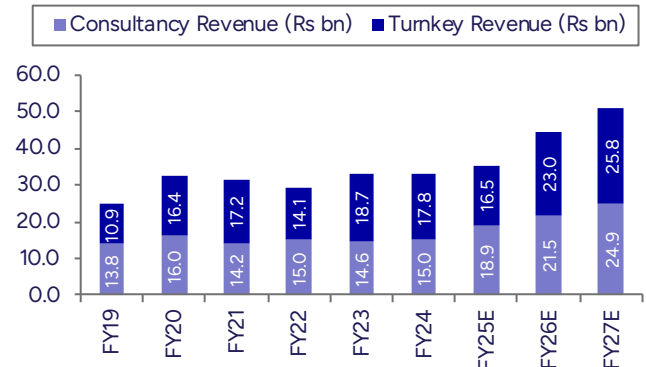
Story in Charts

Exhibit 9: Revenue to grow at 16% CAGR over FY24-27E



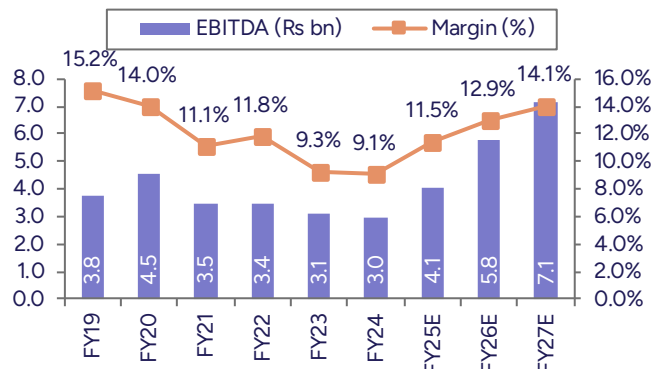
Source: Company, PL

Exhibit 10: Consultancy share to increase from 46% to 49%



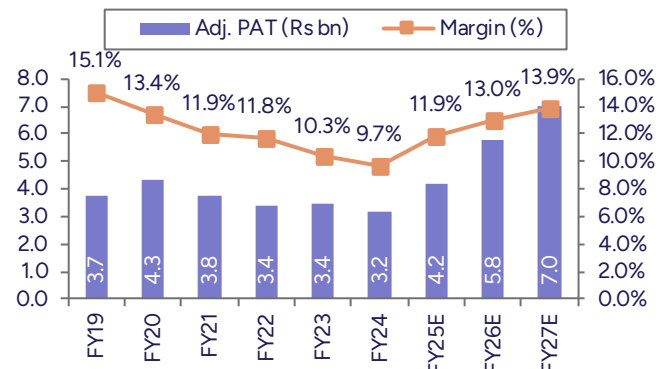
Source: Company, PL

Exhibit 11: EBITDA margin to rise to ~14% by FY27E



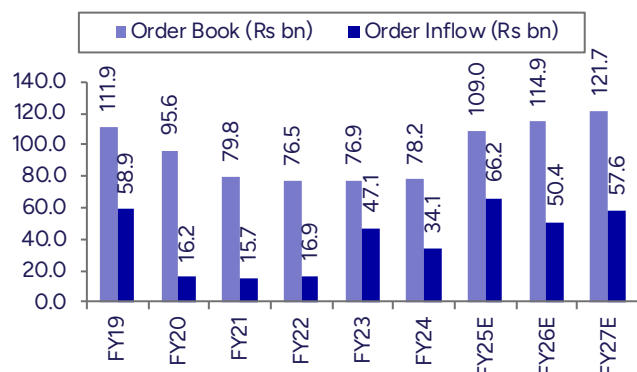
Source: Company, PL

Exhibit 12: Adj. PAT to grow at 30% CAGR over FY24-27E



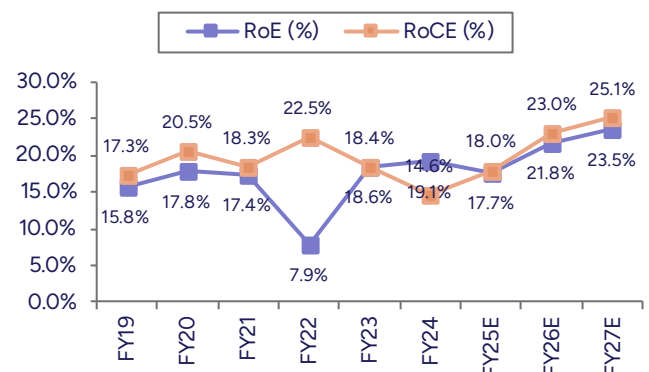
Source: Company, PL

Exhibit 13: Order inflow to grow at ~19% CAGR over FY24-27E



Source: Company, PL

Exhibit 14: RoE and RoCE to cross 20% from FY26E



Source: Company, PL

Valuation

Exhibit 15: SoTP Valuation

	FY25	FY26	FY26 EPS	Multiple (x)	Basis (x)	Value / Share
EIL Consol PAT (ex-JVs/Associates)	4,204	5,770				
Less: Post-Tax Dividend Income from Numaligarh	338	456				
EIL Core PAT	3,866	5,314	9.5			-
Core PAT - Consultancy	3,198	4,334	7.7	25	PE	193
Core PAT - LSTK	669	981	1.7	10	PE	17

Equity Investments

Numaligarh Refinery		9,046		2.0	PB	32
Ramagundam Fertilizer Project		2,663		1.5	PB	7

Total Value per Share **250**

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	32,809	35,359	44,483	50,752
YoY gr. (%)	(1.5)	7.8	25.8	14.1
Cost of Goods Sold	16,963	17,326	22,419	25,325
Gross Profit	15,845	18,033	22,064	25,427
Margin (%)	48.3	51.0	49.6	50.1
Employee Cost	9,854	10,446	11,699	12,518
Other Expenses	3,020	3,536	4,604	5,760
EBITDA	2,971	4,051	5,760	7,148
YoY gr. (%)	(3.6)	36.4	42.2	24.1
Margin (%)	9.1	11.5	12.9	14.1
Depreciation and Amortization	350	363	398	423
EBIT	2,621	3,689	5,362	6,725
Margin (%)	8.0	10.4	12.1	13.3
Net Interest	30	28	27	25
Other Income	1,636	1,945	2,358	2,741
Profit Before Tax	4,782	5,605	7,693	9,441
Margin (%)	14.6	15.9	17.3	18.6
Total Tax	1,180	1,401	1,923	2,407
Effective tax rate (%)	24.7	25.0	25.0	25.5
Profit after tax	3,602	4,204	5,770	7,033
Minority interest	-	-	-	-
Share Profit from Associate	851	-	-	-
Adjusted PAT	4,034	4,204	5,770	7,033
YoY gr. (%)	16.5	4.2	37.3	21.9
Margin (%)	12.3	11.9	13.0	13.9
Extra Ord. Income / (Exp)	419	-	-	-
Reported PAT	4,453	4,204	5,770	7,033
YoY gr. (%)	28.6	(5.6)	37.3	21.9
Margin (%)	13.6	11.9	13.0	13.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,453	4,204	5,770	7,033
Equity Shares O/s (m)	562	562	562	562
EPS (Rs)	7.2	7.5	10.3	12.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	4,213	4,713	5,213	5,713
Tangibles	4,213	4,713	5,213	5,713
Intangibles	-	-	-	-
Acc: Dep / Amortization	1,593	1,955	2,354	2,777
Tangibles	1,593	1,955	2,354	2,777
Intangibles	-	-	-	-
Net fixed assets	2,621	2,758	2,860	2,937
Tangibles	2,621	2,758	2,860	2,937
Intangibles	-	-	-	-
Capital Work In Progress	408	408	408	408
Goodwill	-	-	-	-
Non-Current Investments	13,651	13,621	13,734	13,681
Net Deferred tax assets	3,491	3,491	3,491	3,491
Other Non-Current Assets	297	884	1,112	2,030
Current Assets				
Investments	1,526	1,831	2,903	4,184
Inventories	6	10	12	56
Trade receivables	3,356	4,166	5,119	8,204
Cash & Bank Balance	12,187	12,846	14,360	14,305
Other Current Assets	3,671	4,066	4,671	6,090
Total Assets	43,927	46,441	51,406	58,492
Equity				
Equity Share Capital	2,810	2,810	2,810	2,810
Other Equity	19,743	22,055	25,228	29,097
Total Networth	22,553	24,865	28,039	31,907
Non-Current Liabilities				
Long Term borrowings	330	330	330	330
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	4,437	3,875	4,509	5,284
Other current liabilities	20,099	20,862	22,019	24,462
Total Equity & Liabilities	43,927	46,441	51,406	58,492

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	4,782	5,605	7,693	9,441
Add. Depreciation	350	363	398	423
Add. Interest	30	28	27	25
Less Financial Other Income	1,636	1,945	2,358	2,741
Add. Other	(2,132)	-	-	-
Op. profit before WC changes	3,031	5,996	8,118	9,889
Net Changes-WC	(255)	(1,211)	(485)	(2,566)
Direct tax	(556)	(1,401)	(1,923)	(2,407)
Net cash from Op. activities	2,220	3,383	5,710	4,916
Capital expenditures	(339)	(500)	(500)	(500)
Interest / Dividend Income	1,377	-	-	-
Others	413	(305)	(1,072)	(1,281)
Net Cash from Invst. activities	1,450	(805)	(1,572)	(1,781)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,686)	(1,892)	(2,596)	(3,165)
Interest paid	-	(28)	(27)	(25)
Others	(112)	-	-	-
Net cash from Fin. activities	(1,798)	(1,920)	(2,623)	(3,190)
Net change in cash	1,872	658	1,515	(55)
Free Cash Flow	2,220	3,383	5,710	4,916

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	7.2	7.5	10.3	12.5
CEPS	7.8	8.1	11.0	13.3
BVPS	40.1	44.2	49.9	56.8
FCF	3.9	6.0	10.2	8.7
DPS	3.0	3.4	4.6	5.6
Return Ratio(%)				
RoCE	12.3	15.3	20.0	22.2
ROIC	25.9	29.5	42.2	42.4
RoE	19.1	17.7	21.8	23.5
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Net Working Capital (Days)	(12)	3	5	21
Valuation(x)				
PER	26.2	25.1	18.3	15.0
P/B	4.7	4.2	3.8	3.3
P/CEPS	24.1	23.1	17.1	14.2
EV/EBITDA	31.0	22.5	15.4	12.2
EV/Sales	2.8	2.6	2.0	1.7
Dividend Yield (%)	1.6	1.8	2.5	3.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25E
Net Revenue	8,676	8,051	6,238	8,760
YoY gr. (%)	3.0	(8.5)	(23.8)	10.9
Raw Material Expenses	4,812	3,923	2,617	4,380
Gross Profit	3,864	4,129	3,621	4,380
Margin (%)	44.5	51.3	58.0	50.0
EBITDA	501	775	510	876
YoY gr. (%)	0.6	(53.6)	(28.2)	(11.1)
Margin (%)	5.8	9.6	8.2	10.0
Depreciation / Depletion	85	107	98	11
EBIT	416	667	412	866
Margin (%)	4.8	8.3	6.6	9.9
Net Interest	7	8	8	7
Other Income	305	511	389	420
Profit before Tax	714	1,171	793	1,279
Margin (%)	8.2	14.5	12.7	14.6
Total Tax	187	275	203	320
Effective tax rate (%)	26.2	23.5	25.6	25.0
Profit after Tax	527	896	589	959
Minority interest	-	-	-	-
Share Profit from Associates	106	259	327	-
Adjusted PAT	633	1,155	916	959
YoY gr. (%)	293.1	(39.3)	9.9	(24.8)
Margin (%)	7.3	14.3	14.7	10.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	633	1,155	916	959
YoY gr. (%)	293.1	(39.3)	9.9	(24.8)
Margin (%)	7.3	14.3	14.7	10.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	633	1,155	916	959
Avg. Shares O/s (m)	562	562	562	562
EPS (Rs)	1.1	2.1	1.6	1.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Accumulate	250	202
2	13-Aug-24	Accumulate	250	227
3	08-Jul-24	Hold	264	268
4	30-May-24	Hold	264	251
5	12-Apr-24	Hold	257	223
6	06-Feb-24	Hold	257	244
7	09-Jan-24	BUY	166	199
8	13-Nov-23	BUY	166	145

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,833	7,930
2	Apar Industries	BUY	10,399	9,514
3	BEML	Accumulate	4,484	3,664
4	Bharat Electronics	Accumulate	341	277
5	BHEL	Reduce	264	268
6	Carborundum Universal	Hold	1,650	1,469
7	Cummins India	Accumulate	4,081	3,624
8	Engineers India	Accumulate	250	202
9	GE T&D India	Hold	1,601	1,661
10	Grindwell Norton	Accumulate	2,749	2,441
11	Harsha Engineers International	Hold	566	502
12	Hindustan Aeronautics	Hold	4,515	4,257
13	Kalpataru Projects International	Accumulate	1,413	1,348
14	KEC International	Hold	880	1,032
15	Larsen & Toubro	BUY	4,130	3,494
16	Praj Industries	BUY	804	761
17	Siemens	Accumulate	7,374	7,247
18	Thermax	Reduce	4,186	5,193
19	Triveni Turbine	BUY	719	671
20	Voltamp Transformers	Accumulate	14,922	12,236

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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