

November 10, 2024

## Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	BUY		BUY	
Target Price	710		515	
Sales (Rs. m)	85,999	97,116	85,110	96,329
% Chng.	1.0	0.8		
EBITDA (Rs. m)	18,915	22,081	18,442	21,315
% Chng.	2.6	3.6		
EPS (Rs.)	12.7	15.8	13.6	16.4
% Chng.	(6.4)	(3.9)		

### Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	68,930	76,577	85,999	97,116
EBITDA (Rs. m)	12,677	15,698	18,915	22,081
Margin (%)	18.4	20.5	22.0	22.7
PAT (Rs. m)	5,829	7,607	9,624	11,892
EPS (Rs.)	7.7	10.1	12.7	15.8
Gr. (%)	13.2	30.5	26.5	23.6
DPS (Rs.)	-	-	-	0.0
Yield (%)	-	-	-	-
RoE (%)	7.8	9.6	11.2	12.7
RoCE (%)	11.2	12.4	13.6	15.2
EV/Sales (x)	6.8	6.4	5.7	5.0
EV/EBITDA (x)	37.2	31.2	25.9	22.0
PE (x)	80.4	61.6	48.7	39.4
P/BV (x)	6.1	5.7	5.2	4.8

### Key Data

FOHE.BO | FORH IN

52-W High / Low	Rs.650 / Rs.333
Sensex / Nifty	79,486 / 24,148
Market Cap	Rs.469bn / \$ 5,554m
Shares Outstanding	755m
3M Avg. Daily Value	Rs.880.02m

### Shareholding Pattern (%)

Promoter's	31.17
Foreign	25.26
Domestic Institution	30.74
Public & Others	12.83
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	3.9	34.1	82.4
Relative	6.8	24.0	49.1

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## Strong margins across segments

### Quick Pointers:

- Expansion plan on track with 1,100-1,200 bed additions over FY25/26
- Double-digit revenue growth from FY26E and 25-26% OPM by FY27 in Agilus

**Fortis Healthcare's (FORH) Q2FY25 EBITDA at Rs4.3bn was 10% above our estimates. Though hospital margins improved by 170bps/300bps YoY in FY24/H1FY25, we see further scope for improvement aided by 1) improving case and payor mix, 2) cost rationalization initiatives and 3) new brownfield bed additions. Fortis will invest Rs18bn in the diagnostic business, which will increase its stake to 88%. Q2 saw sharp improvement in diagnostic segment profitability partly aided by seasonality. Sustainability of margins and likely pickup in revenue growth make the acquisition value accretive.**

**Our FY26E and FY27E EBITDA stands increased by 3-4%. We expect EBITDA to clock 20% CAGR over FY24-27E. At CMP, the stock is trading at 23x EV/EBITDA on FY27E, adjusted for Agilus stake. Maintain 'Buy' rating with revised TP of Rs710/share, valuing the hospital segment at 26x and diagnostic at 25x EV/EBITDA on FY27E.**

- Occupancy improved QoQ on seasonality:** Hospital business revenue increased 14% YoY (7% QoQ) to Rs16.5bn, vs our estimates of Rs16bn. Diagnostic business net revenue grew 5% YoY to Rs3.3bn. Hospital occupancy improved to 72% vs 69% in Q2FY24. ARPOB also improved by 7% YoY to Rs64.9k largely aided by improved case mix.
- Strong EBITDA beat across segments; hospital margins at 21.5%:** FORH's consolidated EBITDA increased 32% YoY (27% QoQ) to Rs4.35bn, 10% above our estimates. Hospital business EBITDA came in at Rs3.55bn, up 33% YoY. Overall hospital OPM came in at 21.5% (up 300bps QoQ). Diagnostic business EBITDA increased 28% YoY to Rs800mn, with OPM of 24%. Adjusted for Rs90mn one off expenses relating to rebranding, margins were at 26.6%. Net debt decreased by Rs270mn QoQ to Rs2.8bn.
- Key con-call takeaways: Bed expansion:** Total 700 beds are likely to be commercialized across Manesar, FMRI, BG Road, Faridabad, Shalimar Bagh and Anandpur in 2HFY25. Out of total 350 beds in Manesar, 50 were commercialized in Sep'24 and some more will come in during H2; the hospital is guided to break even in 15 months. FY26 will see expansion of 360-400 beds. FMRI unit will be adding 20 beds in Jan'25 with additional 200 beds likely to come on stream in H1FY26. **Occupancy-** Mulund unit saw improvement to 65% vs 60% earlier. As new beds are commercialized, occupancy may see some dip in H2FY25. Faridabad unit saw 80% occupancy, and 50 beds are likely to come up in H2FY25. **Hospital margins-** Both Faridabad and Amritsar are in the 15-20% margin bracket and likely to move up to +20%. FEHI is now operating at double-digit margins, while Ludhiana unit will take some time to cross +20% margin. Mulund unit has moved to the 20-25% margin bracket with improvement in occupancy. Margins for Nagarbhavi unit in Bengaluru were impacted due to higher marketing spends, while Jaipur unit continues to be a drag and operates below 10% margin. **Agilus:** It incurred Rs90mn one-time expenses towards rebranding. The mgmt intends to reduce the annual addition of touchpoints from 900 to 600-700 to increase efficiency. The transaction to acquire additional 31.5% stake in Agilus is expected to finalize in Dec'24, with necessary approvals, including CCI, already secured. Legal case hearings are likely to conclude soon, and legal cost should come off in FY26. Case on Fortis brand buy-out should conclude by Nov-end. Overall capex for FY25 stands at Rs7-8bn.

**Exhibit 1: Q2FY25 Result Overview (Rs mn) – EBITDA above our estimates**

Y/e March	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
<b>Net Sales</b>	<b>19,884</b>	<b>17,700</b>	<b>12.3</b>	<b>18,588</b>	<b>7.0</b>	<b>38,472</b>	<b>34,274</b>	<b>12.2</b>
COGS	4,608	4,127	11.7	4,529	1.8	9,137	8,112	12.6
% of Net Sales	23.2	23.3		24.4		23.7	23.7	
Employee Cost	2,903	2,814	3.2	2,954	(1.7)	5,857	5,659	3.5
% of Net Sales	14.6	15.9		15.9		15.2	16.5	
Other Expenses	8,024	7,457	7.6	7,681	4.5	15,705	14,476	8.5
% of Net Sales	40.4	42.1		41.3		40.8	42.2	
<b>Total</b>	<b>15,536</b>	<b>14,398</b>	<b>7.9</b>	<b>15,164</b>	<b>2.5</b>	<b>30,699</b>	<b>28,247</b>	<b>8.7</b>
<b>EBITDA</b>	<b>4,348</b>	<b>3,302</b>	<b>31.7</b>	<b>3,424</b>	<b>27.0</b>	<b>7,773</b>	<b>6,026</b>	<b>29.0</b>
Margins (%)	21.9	18.7		18.4		20.2	17.6	
Other Income	132	135	(1.9)	130	1.8	263	216	21.3
Interest	364	318	14.5	353	3.3	717	633	13.3
Depreciation	951	841	13.0	910	4.5	1,861	1,634	13.9
<b>PBT</b>	<b>3,166</b>	<b>2,277</b>	<b>39.0</b>	<b>2,292</b>	<b>38.2</b>	<b>5,458</b>	<b>3,976</b>	<b>37.3</b>
Tax	680	488	39.3	561	21.2	1,240	956	29.8
Tax rate %	21.5	21.4		24.5		22.7	24.0	
<b>PAT</b>	<b>2,486</b>	<b>1,789</b>	<b>38.9</b>	<b>1,731</b>	<b>43.6</b>	<b>4,217</b>	<b>3,020</b>	<b>39.6</b>
Share in (loss)/profit of associate	42	13	230.5	6		48	7	630.3
Minority Interest	166	102	63.3	80		246	224	10.1
EO items	598	(37)	(1,719.8)	(2)		596	(52)	(1,252.2)
<b>Reported PAT</b>	<b>1,765</b>	<b>1,737</b>	<b>1.6</b>	<b>1,659</b>	<b>6.4</b>	<b>3,423</b>	<b>2,855</b>	<b>19.9</b>

Source: Company, PL

**Exhibit 2: Hospital revenues grew ~14% YoY, while diagnostic grew 5% YoY**

Revenues	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
<b>Hospital</b>	<b>16,547</b>	<b>14,526</b>	<b>13.9</b>	<b>15,498</b>	<b>6.8</b>	<b>32,037</b>	<b>28,067</b>	<b>14.1</b>
% of Total Sales	83.2	82.1		83.4		83.3	81.9	
<b>Diagnostic</b>	<b>3,337</b>	<b>3,174</b>	<b>5.2</b>	<b>3,090</b>	<b>8.0</b>	<b>6,430</b>	<b>6,207</b>	<b>3.6</b>
% of Total Sales	16.8	17.9		16.6		16.7	18.1	
<b>Total Revenues</b>	<b>19,884</b>	<b>17,700</b>	<b>12.3</b>	<b>18,588</b>	<b>7.0</b>	<b>38,467</b>	<b>34,274</b>	<b>12.2</b>

Source: Company, PL

**Exhibit 3: Hospital/ Diagnostic EBITDA improved 33%/ 28% YoY**

EBITDA	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	H1FY25	H1FY24	YoY gr. (%)
<b>Hospital</b>	<b>3,550</b>	<b>2,677</b>	<b>32.6</b>	<b>2,870</b>	<b>23.7</b>	<b>6,420</b>	<b>4,741</b>	<b>35.4</b>
OPM (%)	21.5	18.4		18.5		20.0	16.9	
<b>Diagnostic</b>	<b>800</b>	<b>625</b>	<b>28.1</b>	<b>550</b>	<b>45.5</b>	<b>1,350</b>	<b>1,289</b>	<b>4.8</b>
OPM (%)	24.0	19.7		17.8		21.0	20.8	
<b>Total EBITDA</b>	<b>4,350</b>	<b>3,302</b>	<b>31.8</b>	<b>3,420</b>	<b>27.2</b>	<b>7,770</b>	<b>6,030</b>	<b>28.9</b>

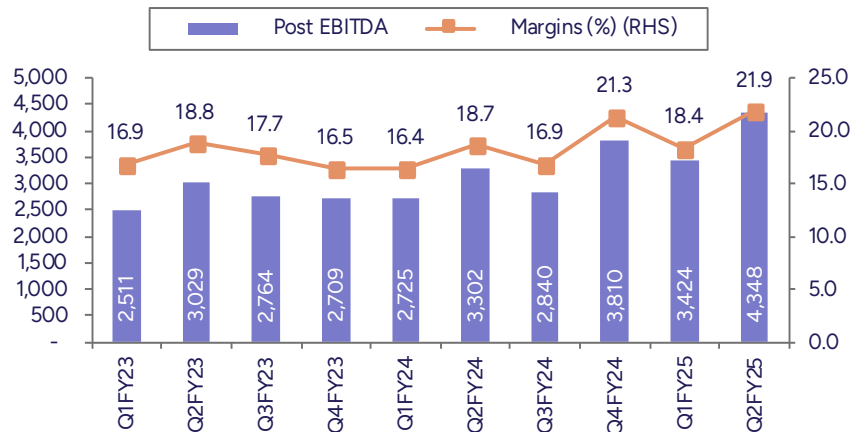
Source: Company, PL

**Exhibit 4: 10 hospitals in 20-25% margin bracket contribute to ~72% of rev**

EBITDA for H1FY25	No. Of facilities (#)	Revenue contribution (%)	Beds (#)	ARPOB (INR mn)	Occupancy (%)
20-25%	10	72	2,467	26.8	73
15-20%	3	9	552	14.3	77
10-15%	1	1	46	15.8	58
<10%	7	18	983	21.1	58
<b>Total/Average</b>	<b>21</b>	<b>99</b>	<b>4,048</b>	<b>19.5</b>	<b>67</b>

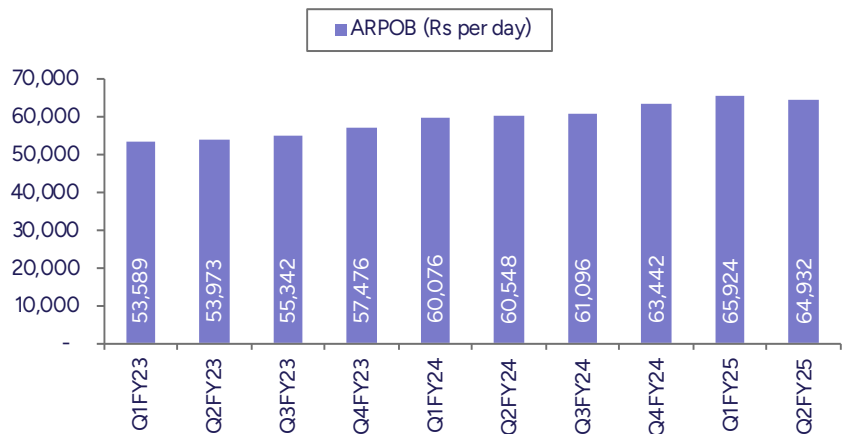
Source: Company, PL; Note: The company has changed reporting structure and it now includes corporate overheads also

**Exhibit 5: Margins improved 350bps QoQ led by both segments**



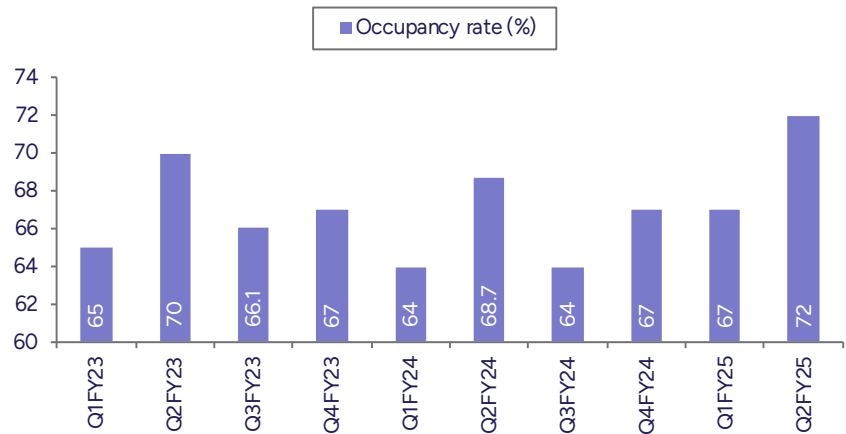
Source: Company, PL

**Exhibit 6: Strong ARPOB aided by improved case mix**



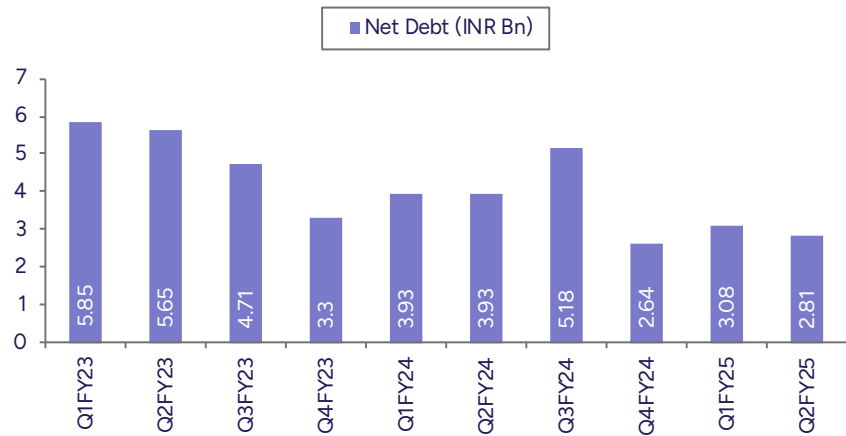
Source: Company, PL

**Exhibit 7: Occupancy improved QoQ due to seasonality**



Source: Company, PL

**Exhibit 8: Net debt decreased by Rs270mn QoQ**



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>68,930</b>	<b>76,577</b>	<b>85,999</b>	<b>97,116</b>
YoY gr. (%)	9.5	11.1	12.3	12.9
Cost of Goods Sold	16,187	17,996	20,210	22,822
Gross Profit	52,743	58,581	65,789	74,294
Margin (%)	76.5	76.5	76.5	76.5
Employee Cost	11,195	14,550	16,340	18,452
Other Expenses	28,871	28,333	30,534	33,761
<b>EBITDA</b>	<b>12,677</b>	<b>15,698</b>	<b>18,915</b>	<b>22,081</b>
YoY gr. (%)	15.1	23.8	20.5	16.7
Margin (%)	18.4	20.5	22.0	22.7
Depreciation and Amortization	3,425	3,796	4,132	4,468
<b>EBIT</b>	<b>9,252</b>	<b>11,902</b>	<b>14,783</b>	<b>17,613</b>
Margin (%)	13.4	15.5	17.2	18.1
Net Interest	1,310	1,769	2,484	2,374
Other Income	383	480	400	500
<b>Profit Before Tax</b>	<b>8,325</b>	<b>10,614</b>	<b>12,699</b>	<b>15,739</b>
Margin (%)	12.1	13.9	14.8	16.2
Total Tax	2,128	2,706	3,175	3,935
Effective tax rate (%)	25.6	25.5	25.0	25.0
<b>Profit after tax</b>	<b>6,198</b>	<b>7,907</b>	<b>9,524</b>	<b>11,804</b>
Minority interest	463	450	100	112
Share Profit from Associate	95	150	200	200
<b>Adjusted PAT</b>	<b>5,829</b>	<b>7,607</b>	<b>9,624</b>	<b>11,892</b>
YoY gr. (%)	13.2	30.5	26.5	23.6
Margin (%)	8.5	9.9	11.2	12.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>5,829</b>	<b>7,607</b>	<b>9,624</b>	<b>11,892</b>
YoY gr. (%)	13.2	30.5	26.5	23.6
Margin (%)	8.5	9.9	11.2	12.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,829	7,607	9,624	11,892
<b>Equity Shares O/s (m)</b>	<b>755</b>	<b>755</b>	<b>755</b>	<b>755</b>
<b>EPS (Rs)</b>	<b>7.7</b>	<b>10.1</b>	<b>12.7</b>	<b>15.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>94,085</b>	<b>1,02,085</b>	<b>1,10,085</b>	<b>1,18,085</b>
Tangibles	94,085	1,02,085	1,10,085	1,18,085
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>37,290</b>	<b>41,086</b>	<b>45,217</b>	<b>49,685</b>
Tangibles	37,290	41,086	45,217	49,685
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>56,795</b>	<b>60,999</b>	<b>64,867</b>	<b>68,400</b>
Tangibles	56,795	60,999	64,867	68,400
Intangibles	-	-	-	-
Capital Work In Progress	5,420	5,420	5,420	5,420
Goodwill	41,942	41,942	41,942	41,942
Non-Current Investments	2,298	2,298	2,298	2,298
Net Deferred tax assets	(1,119)	(1,119)	(1,119)	(1,119)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	1,074	1,207	1,361	1,545
Trade receivables	6,278	7,988	9,007	10,223
Cash & Bank Balance	5,984	2,439	2,252	4,333
Other Current Assets	9,893	10,882	11,970	13,167
<b>Total Assets</b>	<b>1,32,888</b>	<b>1,36,379</b>	<b>1,42,322</b>	<b>1,50,531</b>
<b>Equity</b>				
Equity Share Capital	7,550	7,550	7,550	7,550
Other Equity	69,079	74,920	81,894	90,253
<b>Total Networth</b>	<b>76,629</b>	<b>82,470</b>	<b>89,444</b>	<b>97,803</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	7,409	22,409	21,409	20,409
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,175	1,175	1,175	1,175
Trade payables	7,278	8,307	9,367	10,632
Other current liabilities	24,205	5,375	4,184	3,658
<b>Total Equity &amp; Liabilities</b>	<b>1,32,888</b>	<b>1,36,378</b>	<b>1,42,322</b>	<b>1,50,531</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	8,325	10,614	12,699	15,739
Add. Depreciation	3,425	3,796	4,132	4,468
Add. Interest	1,310	1,769	2,484	2,374
Less Financial Other Income	383	480	400	500
Add. Other	(37)	-	-	-
Op. profit before WC changes	13,023	16,178	19,315	22,581
Net Changes-WC	106	(20,632)	(2,392)	(1,858)
Direct tax	(2,128)	(2,706)	(3,175)	(3,935)
<b>Net cash from Op. activities</b>	<b>11,001</b>	<b>(7,160)</b>	<b>13,748</b>	<b>16,788</b>
Capital expenditures	(10,098)	(8,000)	(8,000)	(8,000)
Interest / Dividend Income	-	-	-	-
Others	1,235	150	200	200
<b>Net Cash from Inv. activities</b>	<b>(8,864)</b>	<b>(7,850)</b>	<b>(7,800)</b>	<b>(7,800)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	1,552	15,000	(1,000)	(1,000)
Dividend paid	(860)	(1,767)	(2,650)	(3,533)
Interest paid	(1,310)	(1,769)	(2,484)	(2,374)
Others	837	-	-	-
<b>Net cash from Fin. activities</b>	<b>220</b>	<b>11,465</b>	<b>(6,134)</b>	<b>(6,907)</b>
<b>Net change in cash</b>	<b>2,357</b>	<b>(3,546)</b>	<b>(186)</b>	<b>2,081</b>
Free Cash Flow	903	(15,160)	5,748	8,788

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
<b>Net Revenue</b>	<b>16,797</b>	<b>17,859</b>	<b>18,588</b>	<b>19,884</b>
YoY gr. (%)	7.7	8.7	12.2	12.3
Raw Material Expenses	3,938	4,137	4,529	4,608
Gross Profit	12,859	13,722	14,059	15,276
Margin (%)	76.6	76.8	75.6	76.8
<b>EBITDA</b>	<b>2,840</b>	<b>3,810</b>	<b>3,424</b>	<b>4,348</b>
YoY gr. (%)	2.7	40.7	25.7	31.7
Margin (%)	16.9	21.3	18.4	21.9
Depreciation / Depletion	869	922	910	951
<b>EBIT</b>	<b>1,971</b>	<b>2,888</b>	<b>2,514</b>	<b>3,398</b>
Margin (%)	11.7	16.2	13.5	17.1
Net Interest	330	347	353	364
Other Income	68	98	130	132
<b>Profit before Tax</b>	<b>1,786</b>	<b>2,671</b>	<b>2,294</b>	<b>2,568</b>
Margin (%)	10.6	15.0	12.3	12.9
Total Tax	489	682	561	680
Effective tax rate (%)	27.4	25.6	24.4	26.5
<b>Profit after Tax</b>	<b>1,297</b>	<b>1,988</b>	<b>1,733</b>	<b>1,889</b>
Minority interest	(4)	244	80	166
Share Profit from Associates	45	43	6	42
<b>Adjusted PAT</b>	<b>1,347</b>	<b>1,787</b>	<b>1,659</b>	<b>1,765</b>
YoY gr. (%)	3.9	34.8	48.4	1.6
Margin (%)	8.0	10.0	8.9	8.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,347</b>	<b>1,787</b>	<b>1,659</b>	<b>1,765</b>
YoY gr. (%)	3.9	34.8	48.4	1.6
Margin (%)	8.0	10.0	8.9	8.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,347</b>	<b>1,787</b>	<b>1,659</b>	<b>1,765</b>
Avg. Shares O/s (m)	-	-	-	-
<b>EPS (Rs)</b>	<b>1.8</b>	<b>2.4</b>	<b>2.2</b>	<b>2.3</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Per Share(Rs)</b>				
EPS	7.7	10.1	12.7	15.8
CEPS	12.3	15.1	18.2	21.7
BVPS	101.5	109.2	118.5	129.5
FCF	1.2	(20.1)	7.6	11.6
DPS	-	-	-	0.0
<b>Return Ratio(%)</b>				
RoCE	11.2	12.4	13.6	15.2
ROIC	7.3	8.9	10.6	12.0
RoE	7.8	9.6	11.2	12.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.0	0.3	0.2	0.2
Net Working Capital (Days)	0	4	4	4
<b>Valuation(x)</b>				
PER	80.4	61.6	48.7	39.4
P/B	6.1	5.7	5.2	4.8
P/CEPS	50.6	41.1	34.1	28.6
EV/EBITDA	37.2	31.2	25.9	22.0
EV/Sales	6.8	6.4	5.7	5.0
Dividend Yield (%)	-	-	-	-

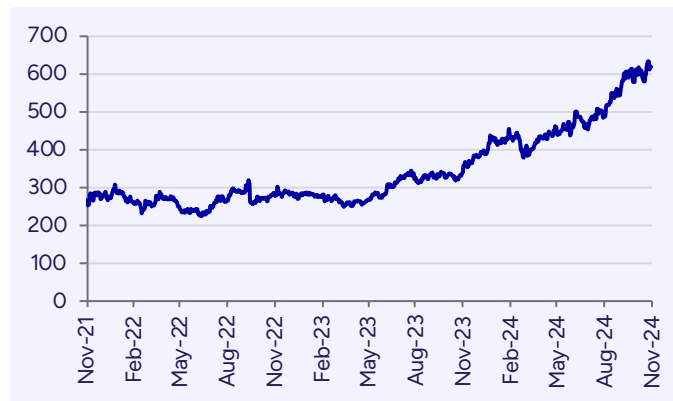
Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
Hospital	56,860	63,903	72,058	81,781
Diagnostic	12,070	12,674	13,941	15,335

Source: Company Data, PL Research

**Price Chart**



**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	BUY	515	581
2	08-Aug-24	BUY	515	486
3	08-Jul-24	BUY	515	460
4	26-May-24	BUY	515	462
5	08-Apr-24	BUY	480	437
6	09-Feb-24	BUY	780	444
7	08-Jan-24	BUY	400	434
8	12-Nov-23	BUY	400	359

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,410
2	Aster DM Healthcare	BUY	500	443
3	Aurobindo Pharma	Accumulate	1,525	1,466
4	Cipla	Accumulate	1,615	1,478
5	Divi's Laboratories	Accumulate	5,000	5,426
6	Dr. Reddy's Laboratories	Reduce	1,335	1,272
7	Eris Lifesciences	BUY	1,420	1,292
8	Fortis Healthcare	BUY	515	581
9	HealthCare Global Enterprises	BUY	420	430
10	Indoco Remedies	Accumulate	320	315
11	Ipca Laboratories	Reduce	1,250	1,491
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,860
13	Jupiter Life Line Hospitals	BUY	1,475	1,432
14	Krishna Institute of Medical Sciences	BUY	480	550
15	Lupin	BUY	2,420	2,105
16	Max Healthcare Institute	BUY	1,200	1,073
17	Narayana Hrudayalaya	BUY	1,420	1,196
18	Sun Pharmaceutical Industries	BUY	2,100	1,903
19	Suntech Realty	BUY	700	588
20	Torrent Pharmaceuticals	Accumulate	3,600	3,433
21	Zydus Lifesciences	Accumulate	1,305	1,057

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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