

# Indostar Capital Finance

Bloomberg	INDOSTAR IN
Equity Shares (m)	136
M.Cap.(INRb)/(USDb)	41 / 0.5
52-Week Range (INR)	343 / 188
1, 6, 12 Rel. Per (%)	-5/9/16
12M Avg Val (INR M)	67

## Financials & Valuations (INR b)

Y/E March	FY25	FY26E	FY27E
NII	4.6	5.4	6.4
PPP	1.9	2.6	3.3
PAT	0.5	1.2	2.0
EPS (INR)	3.9	8.0	13.5
EPS Gr. (%)	-27	107	68
BV (INR)	252	319	333

## Ratios

NIM (%)	6.1	7.8	8.5
C/I ratio (%)	71.7	67.2	64.6
RoA (%)	0.5	1.0	1.4
RoE (%)	1.6	2.9	4.1
Payout (%)	0.0	0.0	0.0

## Valuations

P/E (x)	75.3	36.3	21.6
P/BV (x)	1.2	0.9	0.9
Div. Yield (%)	0.0	0.0	0.0

## Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	73.3	73.6	75.0
DII	2.3	1.9	1.8
FII	2.7	2.4	1.5
Others	21.7	22.1	21.7

FII Includes depository receipts

**CMP: INR302**

**TP: INR360 (+19%)**

**Buy**

## Disbursements weak in vehicle finance; credit costs stable

### PAT rose ~3% YoY; asset quality improved, aided by the ARC transaction

Indostar Capital Finance (IndoStar) reported a mixed quarter. Although business momentum was subdued due to the tightening of underwriting policies, asset quality improved, aided by the ARC transaction, while credit costs remained stable QoQ.

**Key highlights:** 1) Consolidated disbursements declined ~13% YoY to ~INR15.4b and retail AUM rose ~30% YoY to ~INR109b; 2) The company added ~240 employees in 4QFY25, bringing the total count to ~5,763; 3) the CV segment contributed ~68% to the retail disbursement mix; and 4) Credit costs were stable sequentially, translating into annualized credit costs of ~1.8%.

## Financial highlights

- IndoStar's 4QFY25 PAT stood at INR362m, rising ~3% YoY (PY: INR353m). FY25 PAT grew ~4% YoY to INR1.2b.
- NII in 4QFY25 grew ~45% YoY to INR1.3b. Opex rose ~8% YoY to INR1.2b. PPOP stood at INR494m (PQ: INR479m).
- Total AUM stood at ~INR111b, up ~26% YoY and ~4% QoQ. VF AUM grew ~32% YoY to INR74b (PQ: ~INR73b).
- Asset quality improved, driven by the ARC transaction, with standalone GNPA declining ~40bp QoQ to ~4.5% and standalone NNPA declining ~20bp QoQ to 2.5%. Collection efficiency in 4QFY25 continued to remain subdued, even though there has been an improvement relative to 2Q levels. The company emphasized that the Tamil Nadu Bill is unlikely to affect formal lenders like IndoStar, as it is primarily targeted at informal lending entities.
- We estimate a CAGR of 20%/94% in AUM/PAT over FY25-27, aided by improvements in NIM to 7.8%/8.5% in FY26E/FY27E. **Reiterate BUY with a TP of INR360 (premised on 1.1x Mar'27E BVPS).**

## AUM grows ~26% YoY; disbursements weak in VF

- Disbursements stood at INR15.4b in 4QFY25, declining ~13% YoY. Vehicle Finance (VF) disbursements declined ~27% YoY to INR10.5b (PQ: INR12.7b).
- Management stated that the company proactively tightened its lending policies, which led to a slowdown in disbursements within the vehicle finance portfolio. The company guided for standalone AUM growth of ~12-15% in FY26. We model a standalone AUM CAGR of 20% over FY25-27E.

## Key highlights from the management commentary

- The company launched its micro-LAP product last year, and targets to drive AUM growth without incurring significant additional costs. It plans to build a granular portfolio by targeting underbanked and underserved markets. The company targets a micro-LAP AUM of ~INR3b by Mar'26.
- Demand for used vehicles remains strong and is expected to sustain due to its favorable pricing compared to new vehicles and better economic viability for fleet operators.

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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

- IndoStar has strategically prioritized the expansion of its loan book in the used CV segment and micro-LAP. A reinforced management team, enhanced processes, and an improvement in the economic climate will serve as catalysts for growth in this segment.
- Corporate and SME segments now contribute only ~5% to the total AUM mix. The company has sold stressed loans in ARC transactions, and we expect the company to start FY26 on a clean slate. Going forward, this should translate into better asset quality outcomes and robust execution. The risk-reward is favorable at 0.9x FY27E P/BV. **Reiterate BUY** rating on the stock with a TP of **INR360** (premised on 1.1x Mar'27E BVPS).

### Quarterly Performance

(INR M)

Y/E March	FY24				FY25				FY24	FY25
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Interest Income	2,723	2,175	2,262	2,485	2,703	2,956	3,125	3,184	9,135	11,968
Interest Expenses	1,544	1,408	1,453	1,619	1,668	1,878	1,930	1,933	5,797	7,408
<b>Net Interest Income</b>	<b>1,179</b>	<b>767</b>	<b>808</b>	<b>865</b>	<b>1,035</b>	<b>1,078</b>	<b>1,196</b>	<b>1,251</b>	<b>3,338</b>	<b>4,560</b>
YoY Growth (%)	-8.6	-33.0	-36.5	-19.5	-12.2	40.5	47.9	44.6	-30.2	36.6
Other Income	271	169	127	1,456	387	565	611	566	1,936	2,129
<b>Total Income</b>	<b>1,450</b>	<b>936</b>	<b>936</b>	<b>2,321</b>	<b>1,422</b>	<b>1,643</b>	<b>1,806</b>	<b>1,817</b>	<b>5,274</b>	<b>6,688</b>
YoY Growth (%)	-12.7	-36.9	-36.1	67.2	-1.9	75.6	93.1	-21.7	-12.0	26.8
Operating Expenses	1,153	850	884	1,105	1,106	1,272	1,212	1,198	3,741	4,788
<b>Operating Profit</b>	<b>297</b>	<b>86</b>	<b>52</b>	<b>1,216</b>	<b>317</b>	<b>371</b>	<b>594</b>	<b>619</b>	<b>1,533</b>	<b>1,901</b>
YoY Growth (%)	-53.6	-76.3	-79.6	67.5	6.4	333.5	1,044.5	-49.1	-22.7	24.0
Provisions & Loan Losses	-119	-11	-52	1,022	210	193	479	494	831	1,375
<b>Profit before Tax</b>	<b>416</b>	<b>297</b>	<b>191</b>	<b>392</b>	<b>297</b>	<b>363</b>	<b>331</b>	<b>442</b>	<b>1,297</b>	<b>1,434</b>
Tax Provisions	27	49	22	40	48	46	54	80	138	229
<b>Net Profit</b>	<b>389</b>	<b>248</b>	<b>169</b>	<b>353</b>	<b>249</b>	<b>317</b>	<b>277</b>	<b>362</b>	<b>1,158</b>	<b>1,205</b>
YoY Growth (%)	-36.1	-52.0	-54.0	-53.6	-36.0	27.9	64.3	2.6	-48.5	4.0
<b>Key Operating Parameters (%)</b>										
Yield on loans (Cal)	16.3	14.3	13.3	13.4	17.0	17.1	17.6	17.8		
Cost of funds (Cal)	10.7	11.9	9.4	9.1	10.9	11.2	10.9	11.2		
Spreads (Cal)	5.6	2.4	3.8	4.3	6.1	5.9	6.7	6.6		
NIMs (Cal)	5.9	3.9	4.1	4.1	4.5	4.4	4.6	4.6		
Credit Cost (Cal)	-0.6	-0.1	-0.3	4.9	0.9	0.8	1.8	1.8		
Cost to Income Ratio	79.5	90.8	94.5	47.6	77.7	77.4	67.1	65.9		
Tax Rate	6.5	0.0	0.4	0.0	0.1	0.1	0.1	0.2		
<b>Balance Sheet Parameters</b>										
AUM (INR B)	80.6	77.3	80.4	87.6	95.7	101.1	106.3	110.5		
Change YoY (%)	-2.2	-2.3	4.8	12.2	18.6	30.9	32.2	26.1		
AUM Mix (%)										
Vehicle	48.7	56.7	60.3	63.8	66.1	68.9	68.7	67.0		
Housing	21.6	24.5	25.5	25.9	25.0	25.3	25.9	28.0		
SME & Others	14.6	13.7	9.1	5.5	4.7	4.0	3.6	3.2		
Corporate	14.8	4.7	4.7	4.4	3.9	1.7	1.6	1.4		
Disbursements (INR B)	11.2	12.7	13.5	17.7	16.3	17.2	15.7	15.4		
Change YoY (%)	224.4	279.9	157.7	96.8	45.8	35.9	16.9	-13.1		
<b>Asset Quality Parameters (%)</b>										
GS 3 (INR B)	4.9	4.7	3.9	3.1	3.5	3.7	3.6	3.4		
Gross Stage 3 (% on Assets)	6.6	6.7	5.3	4.1	4.2	5.0	4.9	4.5		
Net Stage 3 (% on Assets)	3.1	3.3	2.4	1.8	2.1	2.5	2.7	2.5		
PCR (%)	53.6	51.5	56.9	59.1	53.7	51.0	46.2	46.6		

E: MOFSL estimates



### Improvement in asset quality; standalone GS3 stood at ~4.5%

- Asset quality exhibited improvement, with standalone GNPA improving ~30bp QoQ to ~4.5% and standalone NNPA declining ~20bp QoQ to 2.5%. Collection efficiency (including overdue) stood at ~97% (PQ: ~95.2%).
- The company emphasized that the Tamil Nadu Bill is unlikely to affect formal lenders like IndoStar, as it is primarily targeted at informal lending entities.

### Niwas Housing Finance (earlier IndoStar Home Finance)

- As of Mar'25, AUM stood at ~INR30.1b, growing 36% YoY and ~12% QoQ.
- GS3 improved ~30bp QoQ to 1.35%, while NS3 declined ~40bp QoQ to 0.9%.
- Niwas Housing Finance delivered a PAT of INR240m in 4QFY25 (vs. INR160m in 3QFY25).
- CRAR stood at ~49.8% and the debt-equity ratio stood at 3.4x.

## Highlights from the management commentary

### Guidance

- The company has guided for standalone AUM growth of ~12-15% in FY26.
- It has launched a cost optimization project and aims to bring down the cost-to-income ratio within the 50% range.
- It plans to continue expanding its branch footprint and strengthening its multi-product strategy over the next few years.
- It has guided for PCR to be in the range of ~47-50%.
- HFC has achieved 32% AUM CAGR over the last four years, and the company expects similar growth to continue going forward.
- The lower AUM guidance for FY26 is due to tighter policy measures, which will stay in effect for 1-2 quarters.
- The company expects a much better trend for the used CV industry. Across the industry and for all peers, next year appears much better than the last year.

### Opening remarks

- The CV segment declined ~1% YoY in FY25, impacted by factors such as general elections, rising new vehicle prices, and reduced government expenditure.
- The outlook for FY26 is positive, with ~5% growth after a decline in FY25.
- Demand for used vehicles remains strong and is expected to sustain due to their favorable pricing compared to new vehicles and better economic viability for fleet operators.

### Business highlights

- The company has successfully transitioned from being a pure CV lender to a diversified vehicle financier.
- In FY25, 35% of disbursements were from non-CV segments, including farm equipment and construction finance.
- There was some softness in the collection during the year.
- FY25 marked the third consecutive year of profitability.
- The company continued to grow its distribution network with the addition of 154 branches during the year, which allowed the company to penetrate deeper into the market.

- The company's focus is to grow a multi-product branch network.

### Micro LAP

- IndoStar launched micro LAP last year, which will help the company grow AUM without any additional costs. The company will build a granular book by lending to under-banked and under-penetrated markets.
- The focus is on micro-enterprises in rural areas, such as kirana stores, sweet shops, and other local businesses.
- It will focus on ticket size of less than INR600k, targeting yields of around ~22%. LTV is less than 50%.
- Micro LAP has a dedicated team of 300 people. The company will focus on direct sourcing instead of going through DSAs.
- Currently, the company has 1,000 borrowers and an AUM of INR500m.
- The company is disbursing INR150m monthly in Micro LAP and is targeting an AUM of INR3b by Mar'26.
- It will also focus on cross-selling the micro-LAP product to its existing vehicle finance customers.
- It plans to grow the business slowly and cautiously. The company does not have any other operating costs and will look to leverage cross-selling from vehicle finance branches.
- Bounce rates are low. However, we will have to wait for a few quarters to fully assess the impact.

### Standalone financial highlights

- Yields stood at 18.5%, supported by continuous focus on tier 3 and tier 4 towns and improving product mix.
- The company is committed to reducing CoB and will focus on increasing borrowing through banking channels.
- GS3 stood at ~4.52% and NS3 stood at ~2.46%, while credit costs were stable QoQ.
- EMI to EMI collection improved during the quarter.
- PCR in the last quarter was 47%; going forward, it will remain within 47-50%
- The company does not require any capital for the next 2-3 years. It is well-capitalized and has a strong balance sheet.

### ARC sale

- The company has INR13.9b of gross SR outstanding. It has provided INR3.7b in provision with a PCR of around 26%.
- The company is exploring ways to expedite SR realizations, and the portfolio is adequately provisioned.
- There were no resolutions of SR during the quarter.

### AUM growth and disbursements

- The company has tightened the policy, resulting in softness in disbursements in the vehicle finance portfolio as a proactive measure.
- AUM growth was also impacted due to the ARC transaction done during the quarter.
- One of the assets sold was an Agri PSL, done at the request of a PSU bank.

### **Liabilities and cost of borrowings**

- The company is securing attractive rates in the NCD market and it will continue to access the same.
- Interest cost/rates in the NCD market are lower than bank borrowing, having decreased by around 2% over the last two years.

### **Collection efficiency**

- EMI to EMI collection efficiency has improved from ~89% in 2QFY25 to 91-92% during the quarter.
- Overdue collection efficiency has improved to 97% during the quarter.
- Ordinances like those in TN and KN will not impact lenders like IndoStar, as they are primarily aimed at informal lenders.

### **Housing finance**

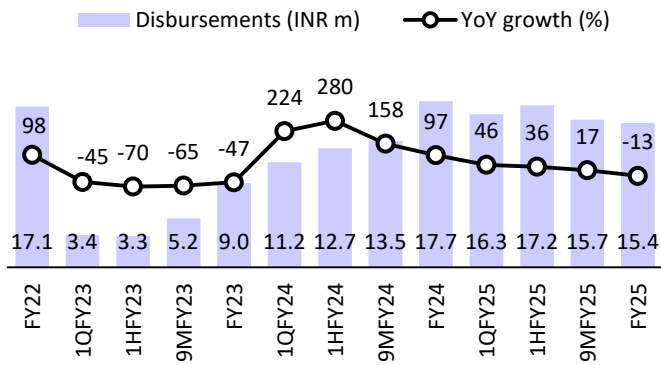
- The company achieved strong and sustainable growth during the quarter.
- AUM crossed INR30b, reaching INR30.1b—a 36% YoY growth.
- Disbursements stood at INR12b, a ~29% YoY growth. There was a strong disbursement momentum during the last quarter.
- GS3 improved to 1.35%. The company raised INR12.3b during FY25 through multiple borrowing channels.
- The company has achieved RBI approval for the acquisition and NHB approval is awaited, which is expected in this quarter.

### **Others**

- The company will receive cash from warrant conversion, which will be used for the normal course of business.
- It will also help reduce interest costs. The company has INR7b maturities in 1QFY26 and can replace the same by 2% lower borrowings.

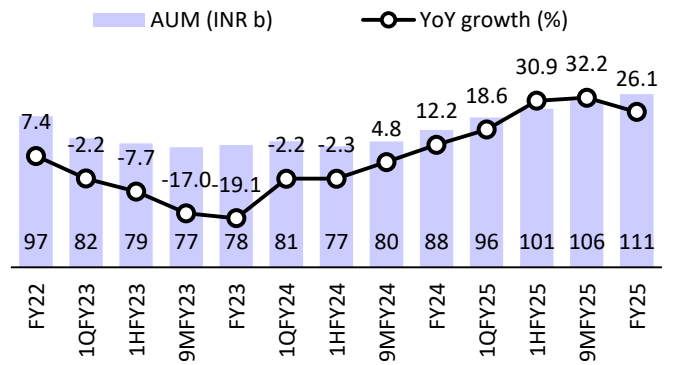
## Key exhibits

**Exhibit 1: Disbursements declined ~13% YoY**



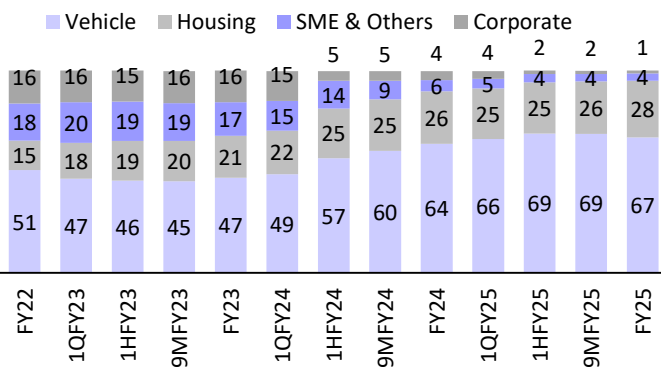
Source: MOFSL, Company

**Exhibit 2: AUM grew ~26% YoY**



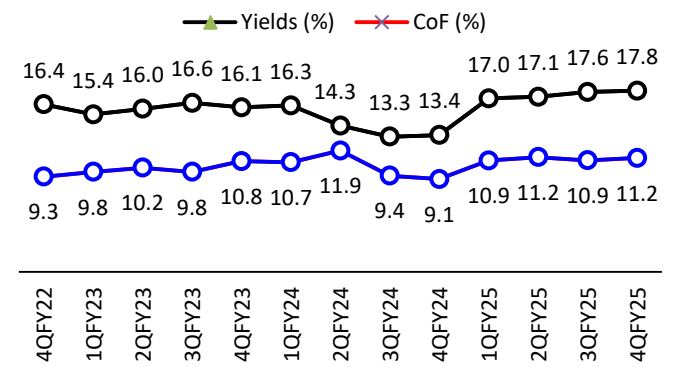
Source: MOFSL, Company

**Exhibit 3: Share of vehicle loans declined QoQ**



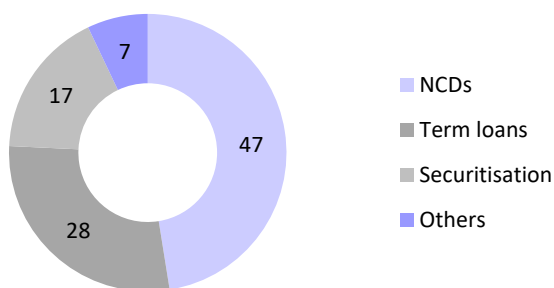
Source: MOFSL, Company

**Exhibit 4: Spreads declined ~10bp QoQ (%)**



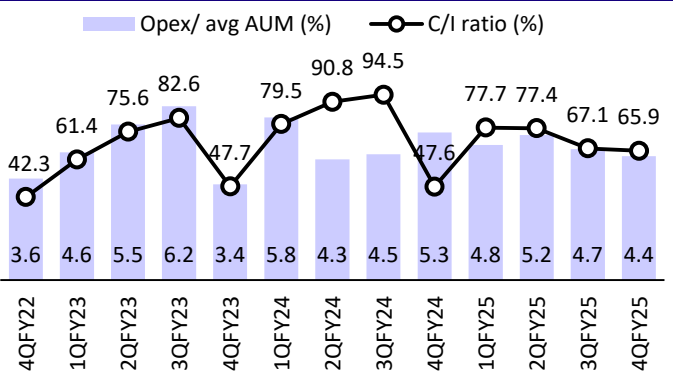
Source: MOFSL, Company

**Exhibit 5: Borrowing mix as of Mar'25 (%)**



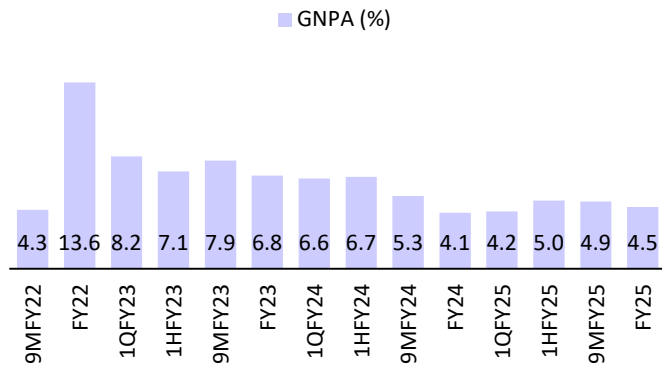
Source: MOFSL, Company

**Exhibit 6: C/I ratio improved to ~66%**



Source: MOFSL, Company

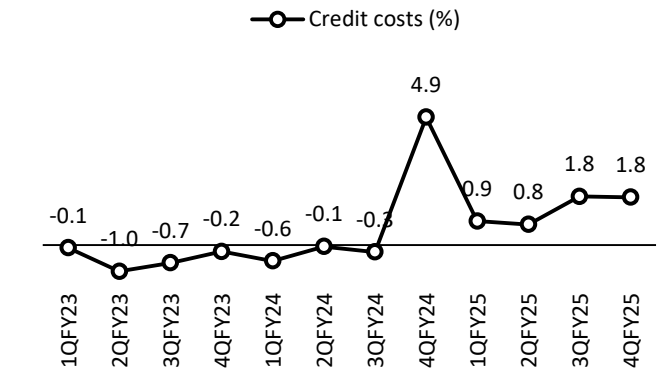
**Exhibit 7: Standalone GNPA improved ~40bp QoQ (%)**



Source: MOFSL, Company

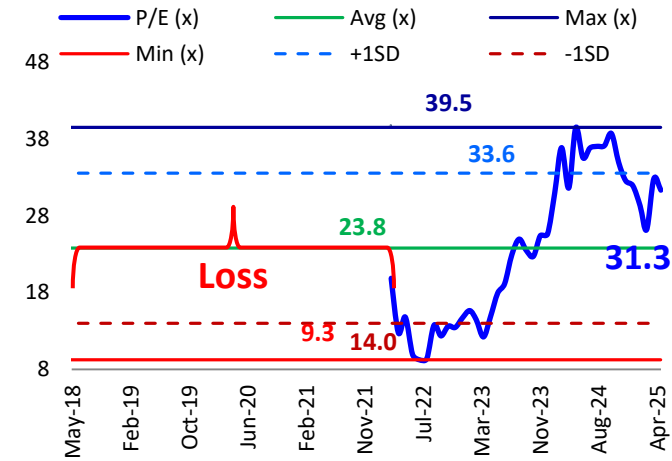
Note: For 1HFY25 onwards, GNPA relates to standalone financials

**Exhibit 8: Credit costs were stable QoQ**



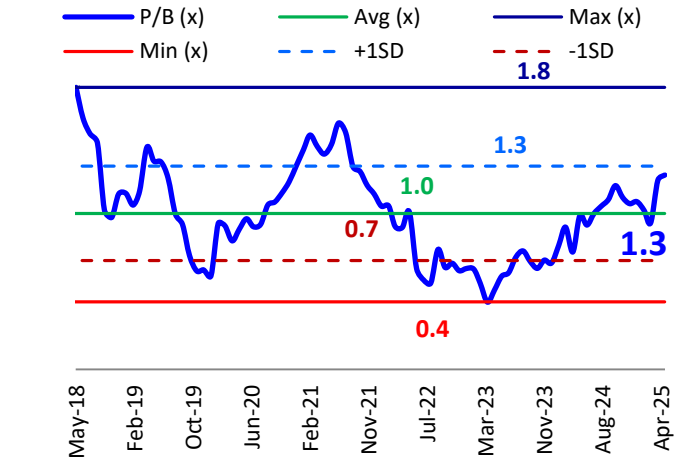
Source: MOFSL, Company

**Exhibit 9: One-year forward P/E**



Source: MOFSL, Company

**Exhibit 10: One-year forward P/B**



Source: MOFSL, Company

## Financials and valuations

### Standalone Income Statement

(INR M)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Interest Income	14,195	11,056	9,558	8,895	9,148	11,965	13,616	16,193
Interest Expended	8,574	6,923	5,143	5,180	5,812	7,408	8,224	9,756
<b>Net Interest Income</b>	<b>5,621</b>	<b>4,134</b>	<b>4,414</b>	<b>3,715</b>	<b>3,336</b>	<b>4,557</b>	<b>5,392</b>	<b>6,436</b>
Change (%)	-	-26.5	6.8	-15.9	-10.2	36.6	18.3	19.4
Fee Income	481	314	385	471	512	1,196	1,376	1,582
Other Income	724	562	593	565	1,592	962	1,088	1,231
<b>Net Income</b>	<b>6,827</b>	<b>5,010</b>	<b>5,392</b>	<b>4,751</b>	<b>5,441</b>	<b>6,716</b>	<b>7,856</b>	<b>9,250</b>
Change (%)	-	-26.6	7.6	-11.9	14.5	23.4	17.0	17.7
Operating Expenses	2,750	3,057	3,293	3,279	3,894	4,815	5,278	5,974
<b>Operating Income</b>	<b>4,076</b>	<b>1,953</b>	<b>2,099</b>	<b>1,471</b>	<b>1,547</b>	<b>1,901</b>	<b>2,578</b>	<b>3,276</b>
Change (%)	-	-52.1	7.5	-29.9	5.1	22.9	35.6	27.1
Provisions and W/Offs	8,553	4,524	11,508	-401	831	1,375	1,400	1,295
<b>PBT</b>	<b>-4,477</b>	<b>-2,571</b>	<b>-9,409</b>	<b>1,873</b>	<b>716</b>	<b>526</b>	<b>1,177</b>	<b>1,981</b>
Tax	0	-156	-1,717	0	0	0	0	0
Tax Rate (%)	0.0	6.1	18.2	0.0	0.0	0.0	0.0	0.0
<b>PAT</b>	<b>-4,477</b>	<b>-2,415</b>	<b>-7,692</b>	<b>1,873</b>	<b>716</b>	<b>526</b>	<b>1,177</b>	<b>1,981</b>
Change (%)	-	-46.1	218.5	-124.3	-61.8	-26.6	123.8	68.3

### Standalone Balance Sheet

(INR M)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Equity Share Capital	925	1,237	1,361	1,361	1,361	1,361	1,470	1,470
Reserves & Surplus	25,962	35,552	27,419	28,865	29,660	32,901	45,457	47,438
<b>Net Worth</b>	<b>26,887</b>	<b>36,790</b>	<b>28,780</b>	<b>30,226</b>	<b>31,021</b>	<b>34,262</b>	<b>46,927</b>	<b>48,908</b>
Other Capital Instruments	0	0	0	0	0	0	0	0
<b>Borrowings</b>	<b>70,872</b>	<b>57,607</b>	<b>54,830</b>	<b>48,131</b>	<b>60,494</b>	<b>69,165</b>	<b>80,357</b>	<b>1,00,318</b>
Change (%)	-	-18.7	-4.8	-12.2	25.7	14.3	16.2	24.8
Other liabilities	2,874	3,477	4,633	3,036	2,387	4,195	5,453	6,544
<b>Total Liabilities</b>	<b>1,00,633</b>	<b>97,873</b>	<b>88,243</b>	<b>81,393</b>	<b>93,901</b>	<b>1,07,622</b>	<b>1,32,738</b>	<b>1,55,770</b>
Investments	4,318	17,885	9,771	14,571	15,709	18,182	20,364	22,807
Change (%)	-	314.2	-45.4	49.1	7.8	15.7	12.0	12.0
<b>Loans and Advances</b>	<b>80,737</b>	<b>66,925</b>	<b>64,910</b>	<b>51,956</b>	<b>59,873</b>	<b>72,165</b>	<b>83,445</b>	<b>1,02,679</b>
Change (%)	-	-17.1	-3.0	-20.0	15.2	20.5	15.6	23.1
Net Fixed Assets	4,071	3,790	3,936	3,814	3,796	3,781	3,970	4,169
Other Assets	11,507	9,274	9,626	11,052	14,524	13,494	24,959	26,114
<b>Total Assets</b>	<b>1,00,633</b>	<b>97,873</b>	<b>88,243</b>	<b>81,393</b>	<b>93,901</b>	<b>1,07,622</b>	<b>1,32,738</b>	<b>1,55,770</b>

E: MOFSL Estimates



## Financials and valuations

AUM Details							(INR M)	
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Standalone. AUM (INR Bn)	91	80	83	62	65	79	93	114
AUM Mix								
Corporate	31	24	19	20	6	2	0.5	0.1
Retail	69	76	81	80	94	98	99.5	99.9
Vehicle	49	52	59	59	87	94	93.9	92.5
SME	19	23	22	21	7	4	5.6	7.4
Housing	0	0	0	0	0	0	0.0	0.0
Ratios							(%)	(%)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Spreads Analysis (%)								
Yield on Portfolio	17.6	15.0	14.5	15.2	16.4	18.1	17.5	17.4
Cost of Borrowings	12.1	10.8	9.1	10.1	10.7	11.4	11.0	10.8
Interest Spread	5.5	4.2	5.4	5.2	5.7	6.7	6.5	6.6
Net Interest Margin	6.0	5.4	5.9	5.2	4.7	6.1	7.8	8.5
Profitability Ratios (%)								
RoE	-16.6	-7.6	-23.5	6.3	2.3	1.6	2.9	4.1
RoA (on balance sheet)	-4.4	-2.4	-8.3	2.2	0.8	0.5	1.0	1.4
Debt: Equity (x)	2.6	1.6	1.9	1.6	2.0	2.0	1.7	2.1
Leverage (x)	3.7	2.7	3.1	2.7	3.0	3.1	3.0	3.0
Efficiency Ratios (%)								
Int. Expended/Int.Earned	60.4	62.6	53.8	58.2	63.5	61.9	60.4	60.3
Op. Exps./Net Income	40.3	61.0	61.1	69.0	71.6	71.7	67.2	64.6
Empl. Cost/Op. Exps.	60.0	50.9	53.5	41.4	54.4	61.8	63.7	64.8
Fee income/Net Income	7.1	6.3	7.1	9.9	9.4	17.8	17.5	17.1
Asset quality								
GNPA	3,652	3,441	12,030	4,790	4,265	4,584	4,219	3,888
NNPA	2,893	1,580	5,190	2,190	1,950	2,063	1,983	1,905
GNPA %	4.4	4.7	13.6	6.8	5.3	6.1	6.1	4.4
NNPA %	3.5	2.2	6.7	3.4	2.5	2.9	3.0	2.2
PCR %	20.8	54.1	56.9	54.3	54.3	55.0	53.0	51.0
Valuation								
Book Value (INR)	291	297	211	222	228	252	319	333
BV Growth (%)	-	2.3	-28.9	5.0	2.6	10.4	26.8	4.2
Price-BV (x)	1.0	1.0	1.4	1.3	1.3	1.2	0.9	0.9
Adjusted BV (INR)	263	278	150	197	206	228	299.2	314.3
Price-ABV (x)	1.1	1.0	1.9	1.5	1.4	1.3	1.0	0.9
EPS (INR)	-48.4	-19.5	-56.5	13.8	5.3	3.9	8.0	13.5
EPS Growth (%)	-	-59.7	189.6	-124.3	-61.8	-26.6	107.3	68.3
Price-Earnings (x)	-6.0	-14.9	-5.1	21.1	55.3	75.3	36.3	21.6
Dividend per share	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
E: MOFSL Estimates								

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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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