

# Asian Paints

**BSE SENSEX** 55,398  
**S&P CNX** 16,521

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|                       |               |
|-----------------------|---------------|
| Bloomberg             | APNT IN       |
| Equity Shares (m)     | 959           |
| M.Cap.(INRb)/(USDb)   | 2944.1 / 36.8 |
| 52-Week Range (INR)   | 3588 / 2560   |
| 1, 6, 12 Rel. Per (%) | 9/-1/-10      |
| 12M Avg Val (INR M)   | 4238          |

## Financials & Valuations (INR b)

| Y/E March       | 2022  | 2023E | 2024E |
|-----------------|-------|-------|-------|
| Sales           | 291.0 | 349.2 | 384.8 |
| Sales Gr. (%)   | 34.0  | 20.0  | 10.2  |
| EBITDA          | 48.0  | 66.3  | 77.7  |
| EBIT Margin (%) | 16.5  | 19.0  | 20.2  |
| Adj. PAT        | 32.0  | 46.0  | 54.4  |
| Adj. EPS (INR)  | 33.4  | 47.9  | 56.7  |
| EPS Gr. (%)     | -0.2  | 43.7  | 18.3  |
| BV/Sh.(INR)     | 144.0 | 158.9 | 171.8 |

## Ratios

|            |      |      |      |
|------------|------|------|------|
| RoE (%)    | 24.0 | 31.7 | 34.3 |
| RoCE (%)   | 21.0 | 27.5 | 29.9 |
| Payout (%) | 57.4 | 75.1 | 77.6 |

## Valuation

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 92.0 | 64.0 | 54.1 |
| P/BV (x)       | 21.3 | 19.3 | 17.9 |
| EV/EBITDA (x)  | 60.6 | 43.4 | 36.9 |
| Div. Yield (%) | 0.6  | 1.2  | 1.4  |

## Shareholding pattern (%)

| As On    | Mar-22 | Dec-21 | Mar-21 |
|----------|--------|--------|--------|
| Promoter | 52.6   | 52.6   | 52.8   |
| DII      | 7.6    | 7.2    | 7.4    |
| FII      | 19.5   | 20.5   | 20.4   |
| Others   | 20.3   | 19.7   | 19.5   |

FII Includes depository receipts

**CMP: INR3,069 TP: INR2,840 (-7%) Neutral**

## Better mix to offset material cost pressures in the near term

We spoke to a cross-section of APNT's channel partners across Tier I/II/III cities. However, the sample size of our channel checks is limited and our findings may differ from broader demand trends. Some of the key highlights are as follows:

- Demand is better in urban cities than smaller towns and rural areas, especially after the steep price increases. Slower sales growth in Putty and the continued premiumization trend, after the lifting of COVID-related restrictions, augurs well for near-term margin and consequently our forecasts do not feature a material sequential decline in operating margin in 1HFY23, despite elevated titanium dioxide (TiO<sub>2</sub>) and crude oil prices.
- There has been a slowdown in the demand momentum in the last few weeks, starting from the latter part of Jun'22 – a usual phenomenon during the monsoons. In some pockets though, the slowdown is more marked than usual and needs to be monitored.
- There has been a strong demand recovery in Automotive and Industrial Paints in recent months.

## Rising competition poses a risk to medium-term earnings and multiples

- In the near term, we expect APNT to deliver double-digit growth and margin expansion on account of a better mix, even though crude oil and TiO<sub>2</sub> prices remain elevated as highlighted in our recent [commodity costs note](#).
- We expect double-digit growth for the industry in the medium to long term, aided by:
  - A revival in Real Estate demand, leading to healthy growth in the Decorative Paints segment;
  - Increase in Industrial demand over the medium term, with various manufacturing capacities coming up; and
  - Greater demand from the Automotive sector.
- We also expect overall industry capacity to increase with the entry and sizeable capex plans of new players. With the entry of new players with deep pockets, the overall industry may see a paradigm shift in demand and margin structure due to the heightened competition. We remain cautious as the sector may not enjoy the high multiples of the past.
- APNT has delivered an earnings CAGR of 11.6% over the past five years (FY17-22), while the stock price has delivered 24.1% CAGR, implying a significant re-rating. We have assumed FY24 gross/EBITDA margin at the top end of the management's guidance of 41-42%/18-20%. While we expect RoE to improve, it will still be lower than the 30-40% recorded in the first half of the decade gone by. At 54.1x FY24E P/E, the stock remains expensive. We maintain our **Neutral** rating.

## Better performance by urban cities v/s rural areas

### Tier I cities

- The growth momentum remained robust from Apr'22 to mid-Jun'22. After mid-Jun'22, the market turned soft due to the arrival of monsoon (this is a normal phenomenon at this time of the year). APNT is experiencing good demand on the Industrial front.
- Price hikes are negatively impacting demand in a few pockets. Few customers are delaying their purchase, with some opting for lower price-point products. After the lifting of COVID-related lockdown restrictions, there is a shift in customer preference towards the Premium category over Economy.
- Inventory level in the system remains at optimum levels. As the monsoon has started, dealers aren't stocking up on inventory over optimum levels.
- There was some supply-chain issues at the start of CY22. However, the same has been sorted since the past three months.
- Putties saw a decline in price by ~INR100/40kg in Jun'22. Waterproofing putties are not doing well.

### Tier II cities

- Overall demand improved slightly YoY. However, most of this growth is attributable to value-led growth. Sales in the Premium segment have increased as compared to pre-COVID levels.
- With new players entering the market in recent years, the competitive intensity has increased. However, new players are currently benefiting at the expense of the unorganized sector. APNT has not lost market share.
- The Putty market is seeing good demand. Interior putties are doing well. However, demand for waterproofing putties remains dampened.
- Prices have increased by INR4-5/liter every month over the past three months.
- As Real Estate prices continue to rise, there is a good demand from old complexes for re-painting of buildings. The re-painting cycle generally ranges from three-to-five years.

### Tier III cities

- Decorative Paints are doing better as compared to last year. It is purely led by value growth. However, volumes aren't picking up.
- Demand is negatively impacted from the onset of the monsoon. However, demand in the current monsoon is lower than that recorded in the general monsoon season.
- Price hikes have been in a similar range as compared to Tier I and II cities.
- Some downtrading is being seen due to higher prices.
- Competitive intensity has increased, with other brands offering higher rebates to dealers and tokens to painters.

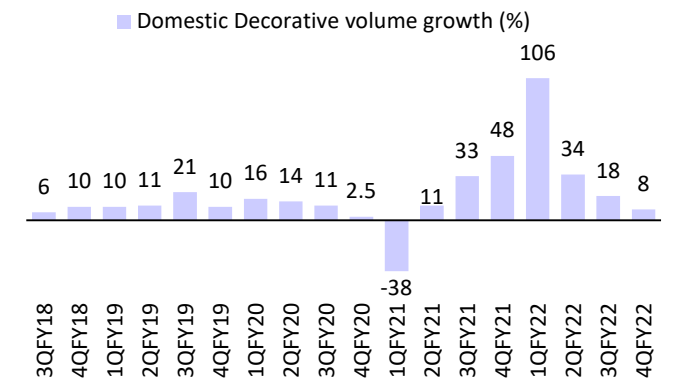
## Story in charts

**Exhibit 1: APNT raises prices by ~24% (on an aggregate basis) for the 12-months ended Mar'22**



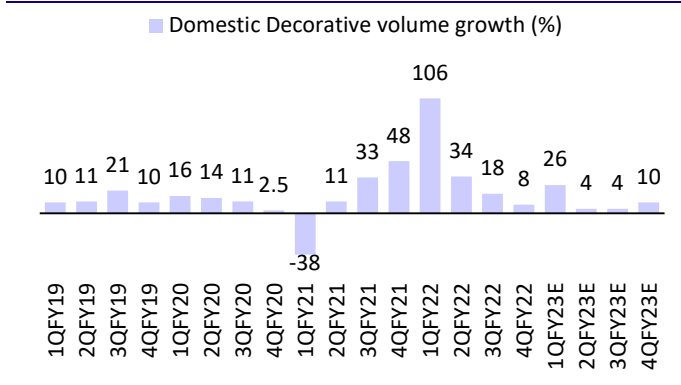
Source: Company, MOFSL

**Exhibit 2: Three-year average volume growth stood at 28%/20%/21%/20% in 1Q/2Q/3Q/4QFY22**



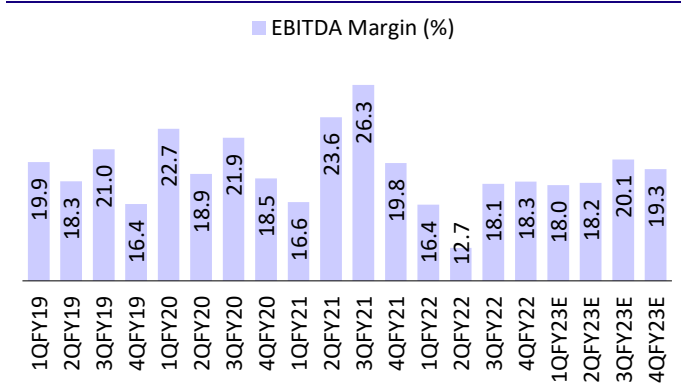
Source: Company, MOFSL

**Exhibit 3: Expect 26% volume growth in 1Q on a low base. For the remainder of FY23, volume growth may stay low**



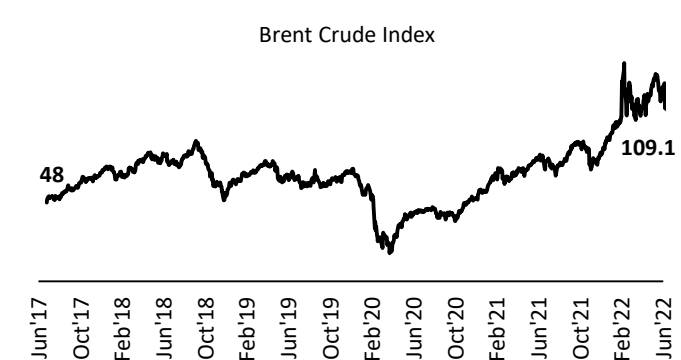
Source: Company, MOFSL

**Exhibit 4: Do not expect much impact on EBITDA margin owing to an improving mix**



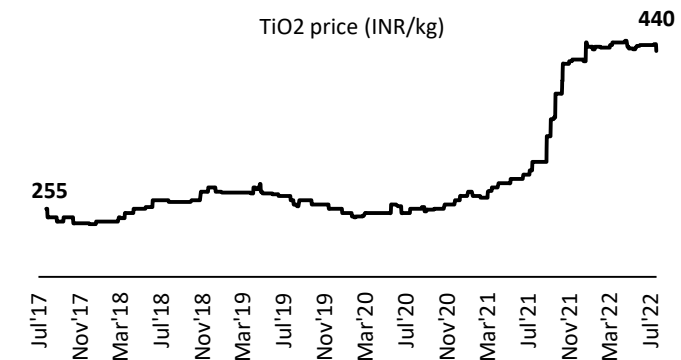
Source: Company, MOFSL

**Exhibit 5: Brent crude oil prices up 64.4% YoY and 13.4% QoQ in 1QFY23**



Source: Company, MOFSL

**Exhibit 6: TiO2 prices rose 54.9% YoY (flat QoQ) in 1QFY23**



Source: Company, MOFSL

**Exhibit 7: Estimated capacities for various players in the industry**

| Company        | Estimated current capacity (KLPA)             | Remarks   |
|----------------|---|---|
| Asian Paints   | 2,330,000<br>(1,730,000 + 600,000 outsourced) | ❖ 11 owned manufacturing facilities             |
| Berger         | ~700,000                                      |   |
| Kansai Nerolac | 5,83,000                                      |   |
| Akzo Nobel     | ~200,000                                      |   |
| Indigo Paints  | 101,000 (liquid paint)                        | ❖ Capacity in Rajasthan, Kerala, and Tamil Nadu |
| JSW Paints     | 1,25,000                                      |   |
| Grasim         | 1,332,000 (to come up by FY24)                | ❖ Outlay of INR100b for setting up the business |

Source: MOFSL, Company

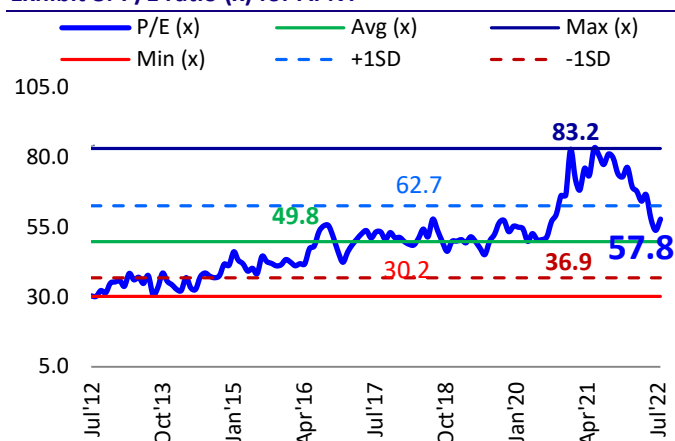
## Valuation and view

### APNT has been a wealth creator in the past decade

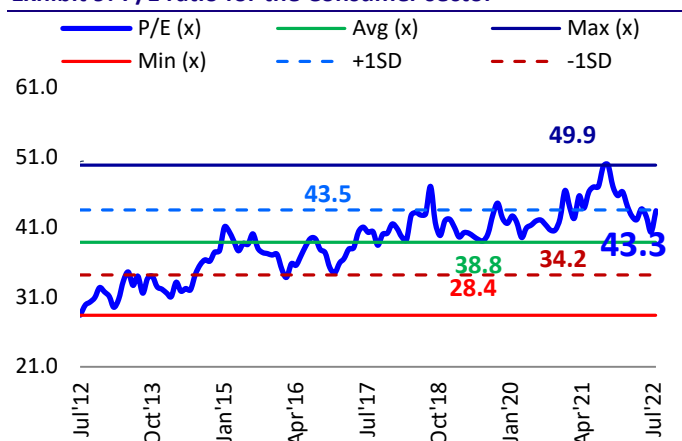
- Despite having an already sizeable sales base of ~INR67b in FY10, APNT reported a healthy (12-13%) sales/EBITDA/PAT CAGR for the decade ended FY20.
- A widening dealer network and an increased thrust in non-metro cities led to a faster shift from the unorganized Paints business, which still constitutes ~30% of the market.
- Categories such as 'Putty' and 'Waterproofing' have been new growth engines.

### Valuation and view

- We have assumed margin in FY24 at the top end of the management's stated gross/EBITDA margin threshold of 41-42%/18-20%.
- APNT has delivered 11.6% earnings CAGR over the past five (FY17-22) years, while the stock price has delivered 24.1% CAGR over the same period, implying significant re-rating. While we expect RoE to improve, it will still be lower as compared to the 30-40% recorded in the first half of the past decade. While its demand outlook is better than FMCG peers, valuations at 54.1x FY24E P/E are expensive, despite the high price increases. We maintain our **Neutral** rating.

**Exhibit 8: P/E ratio (x) for APNT**

Source: Bloomberg, Company, MOFSL

**Exhibit 9: P/E ratio for the Consumer sector**

Source: Bloomberg, Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

(INR b)

| Y/E March                  | FY18         | FY19         | FY20         | FY21         | FY22         | FY23E        | FY24E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Sales</b>           | <b>168.2</b> | <b>192.4</b> | <b>202.1</b> | <b>217.1</b> | <b>291.0</b> | <b>349.2</b> | <b>384.8</b> |
| Change (%)                 | 11.7         | 14.4         | 5.0          | 7.4          | 34.0         | 20.0         | 10.2         |
| Raw Materials              | 96.9         | 112.6        | 113.8        | 121.0        | 183.0        | 209.6        | 223.3        |
| <b>Gross Profit</b>        | <b>71.3</b>  | <b>79.8</b>  | <b>88.3</b>  | <b>96.2</b>  | <b>108.0</b> | <b>139.6</b> | <b>161.5</b> |
| Margin (%)                 | 42.4         | 41.5         | 43.7         | 44.3         | 37.1         | 40.0         | 42.0         |
| Operating Expenses         | 39.4         | 42.1         | 46.7         | 47.6         | 60.0         | 73.3         | 83.8         |
| <b>EBITDA</b>              | <b>32.0</b>  | <b>37.7</b>  | <b>41.6</b>  | <b>48.6</b>  | <b>48.0</b>  | <b>66.3</b>  | <b>77.7</b>  |
| Change (%)                 | 7.1          | 17.8         | 10.5         | 16.7         | -1.1         | 38.0         | 17.2         |
| Margin (%)                 | 19.0         | 19.6         | 20.6         | 22.4         | 16.5         | 19.0         | 20.2         |
| Depreciation               | 3.6          | 6.2          | 7.8          | 7.9          | 8.2          | 8.6          | 9.0          |
| Int. and Fin. Charges      | 0.4          | 1.1          | 1.0          | 0.9          | 1.0          | 1.2          | 1.2          |
| Other Income               | 2.2          | 2.3          | 3.0          | 3.0          | 3.8          | 4.3          | 4.6          |
| <b>Profit before Taxes</b> | <b>30.2</b>  | <b>32.7</b>  | <b>35.8</b>  | <b>42.8</b>  | <b>42.7</b>  | <b>60.9</b>  | <b>72.1</b>  |
| Change (%)                 | 4.8          | 8.2          | 9.5          | 19.3         | -0.1         | 42.5         | 18.4         |
| Margin (%)                 | 18.0         | 17.0         | 17.7         | 19.7         | 14.7         | 17.4         | 18.7         |
| Tax                        | 10.4         | 9.4          | 9.5          | 11.2         | 11.6         | 15.3         | 18.2         |
| Deferred Tax               | 0.0          | 1.6          | -1.0         | -0.2         | -0.6         | 0.0          | 0.0          |
| Tax Rate (%)               | 34.4         | 33.6         | 23.9         | 25.7         | 25.8         | 25.2         | 25.2         |
| <b>PAT Before Minority</b> | <b>19.8</b>  | <b>21.7</b>  | <b>27.3</b>  | <b>31.8</b>  | <b>31.7</b>  | <b>45.5</b>  | <b>53.9</b>  |
| Minority Interest          | -0.5         | -0.4         | -0.5         | -0.3         | -0.3         | -0.5         | -0.5         |
| <b>Adjusted PAT</b>        | <b>20.3</b>  | <b>22.1</b>  | <b>27.8</b>  | <b>32.1</b>  | <b>32.0</b>  | <b>46.0</b>  | <b>54.4</b>  |
| Change (%)                 | 1.9          | 9.2          | 25.5         | 15.4         | -0.2         | 43.7         | 18.3         |
| Margin (%)                 | 12.1         | 11.5         | 13.8         | 14.8         | 11.0         | 13.2         | 14.1         |
| <b>Reported PAT</b>        | <b>20.3</b>  | <b>22.1</b>  | <b>27.7</b>  | <b>32.1</b>  | <b>30.8</b>  | <b>46.0</b>  | <b>54.4</b>  |

### Balance Sheet

(INR b)

| Y/E March                    | FY18        | FY19         | FY20         | FY21         | FY22         | FY23E        | FY24E        |
|------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Share Capital                | 1.0         | 1.0          | 1.0          | 1.0          | 1.0          | 1.0          | 1.0          |
| Reserves                     | 83.1        | 93.7         | 100.3        | 127.1        | 137.2        | 151.5        | 163.8        |
| <b>Net Worth</b>             | <b>84.1</b> | <b>94.7</b>  | <b>101.3</b> | <b>128.1</b> | <b>138.1</b> | <b>152.4</b> | <b>164.8</b> |
| Loans                        | 5.3         | 6.2          | 3.4          | 3.4          | 7.8          | 7.8          | 7.8          |
| Other Liability              | 4.0         | 12.1         | 12.0         | 11.5         | 11.4         | 11.7         | 13.0         |
| Minority Interest            | 3.3         | 3.6          | 4.0          | 4.2          | 3.9          | 4.3          | 4.8          |
| <b>Capital Employed</b>      | <b>96.7</b> | <b>116.6</b> | <b>120.7</b> | <b>147.2</b> | <b>161.1</b> | <b>176.2</b> | <b>190.3</b> |
| Gross Block                  | 43.8        | 67.0         | 69.9         | 71.9         | 76.7         | 79.7         | 83.7         |
| Less: Accum. Depn.           | 9.7         | 13.9         | 19.6         | 24.8         | 33.0         | 41.6         | 50.6         |
| <b>Net Fixed Assets</b>      | <b>34.0</b> | <b>53.0</b>  | <b>50.3</b>  | <b>47.1</b>  | <b>43.7</b>  | <b>38.1</b>  | <b>33.1</b>  |
| Capital WIP                  | 14.1        | 2.1          | 1.4          | 1.8          | 4.3          | 4.3          | 4.3          |
| Right to Use Assets          | 0.0         | 8.7          | 9.2          | 8.5          | 9.1          | 9.1          | 9.1          |
| <b>Investments</b>           | <b>21.4</b> | <b>25.7</b>  | <b>20.2</b>  | <b>47.4</b>  | <b>32.5</b>  | <b>48.7</b>  | <b>58.5</b>  |
| Current                      | 10.6        | 11.7         | 5.1          | 32.7         | 21.8         | 32.7         | 34.5         |
| Non-current                  | 10.8        | 13.9         | 15.1         | 14.7         | 10.7         | 16.0         | 24.0         |
| <b>Curr. Assets, L&amp;A</b> | <b>64.9</b> | <b>69.7</b>  | <b>77.1</b>  | <b>95.8</b>  | <b>137.7</b> | <b>157.2</b> | <b>171.2</b> |
| Inventory                    | 26.6        | 31.5         | 33.9         | 38.0         | 61.5         | 58.4         | 63.3         |
| Account Receivables          | 17.4        | 19.1         | 18.0         | 26.1         | 38.7         | 42.1         | 46.4         |
| Cash and Bank Balance        | 4.0         | 4.4          | 7.8          | 6.1          | 8.6          | 24.9         | 24.8         |
| Others                       | 16.9        | 14.7         | 17.3         | 25.6         | 28.7         | 31.8         | 36.8         |
| <b>Curr. Liab. and Prov.</b> | <b>40.9</b> | <b>45.9</b>  | <b>40.7</b>  | <b>56.3</b>  | <b>68.5</b>  | <b>74.5</b>  | <b>79.1</b>  |
| Account Payables             | 21.6        | 23.9         | 21.4         | 33.8         | 41.6         | 45.9         | 48.9         |
| Other Liabilities            | 17.3        | 19.6         | 16.9         | 19.5         | 24.0         | 24.7         | 25.9         |
| Provisions                   | 2.0         | 2.3          | 2.4          | 3.0          | 2.9          | 3.9          | 4.3          |
| <b>Net Current Assets</b>    | <b>23.9</b> | <b>23.9</b>  | <b>36.4</b>  | <b>39.4</b>  | <b>69.2</b>  | <b>82.7</b>  | <b>92.1</b>  |
| Goodwill on Cons.            | 3.3         | 3.2          | 3.2          | 3.0          | 2.4          | 2.4          | 2.4          |
| <b>Application of Funds</b>  | <b>96.7</b> | <b>116.6</b> | <b>120.7</b> | <b>147.2</b> | <b>161.1</b> | <b>176.2</b> | <b>190.3</b> |

E: MOFSL estimates

## Financials and valuations

### Ratios

| Y/E March                     | FY18        | FY19        | FY20        | FY21        | FY22        | FY23E       | FY24E       |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Basic (INR)</b>            |             |             |             |             |             |             |             |
| <b>EPS</b>                    | <b>21.1</b> | <b>23.1</b> | <b>29.0</b> | <b>33.4</b> | <b>33.4</b> | <b>47.9</b> | <b>56.7</b> |
| Cash EPS                      | 24.9        | 29.6        | 37.1        | 41.7        | 41.9        | 56.9        | 66.1        |
| BV/Share                      | 87.7        | 98.7        | 105.6       | 133.5       | 144.0       | 158.9       | 171.8       |
| DPS                           | 12.4        | 10.7        | 21.8        | 4.9         | 19.2        | 36.0        | 44.0        |
| Payout (%)                    | 58.6        | 46.4        | 75.3        | 14.5        | 57.4        | 75.1        | 77.6        |
| <b>Valuation (x)</b>          |             |             |             |             |             |             |             |
| P/E ratio                     | 145.2       | 133.0       | 105.9       | 91.8        | 92.0        | 64.0        | 54.1        |
| Cash P/E ratio                | 123.3       | 103.8       | 82.7        | 73.6        | 73.3        | 53.9        | 46.5        |
| EV/Sales ratio                | 17.4        | 15.2        | 14.4        | 13.3        | 10.0        | 8.2         | 7.5         |
| EV/EBITDA ratio               | 91.4        | 77.5        | 70.1        | 59.6        | 60.6        | 43.4        | 36.9        |
| P/BV ratio                    | 35.0        | 31.1        | 29.1        | 23.0        | 21.3        | 19.3        | 17.9        |
| Dividend Yield (%)            | 0.4         | 0.3         | 0.7         | 0.2         | 0.6         | 1.2         | 1.4         |
| <b>Return Ratios (%)</b>      |             |             |             |             |             |             |             |
| RoE                           | 25.3        | 24.8        | 28.4        | 28.0        | 24.0        | 31.7        | 34.3        |
| RoCE                          | 21.6        | 21.0        | 23.6        | 24.2        | 21.0        | 27.5        | 29.9        |
| RoIC                          | 23.7        | 22.1        | 23.2        | 24.1        | 20.6        | 29.2        | 33.3        |
| <b>Working Capital Ratios</b> |             |             |             |             |             |             |             |
| Debtor (Days)                 | 38          | 36          | 32          | 44          | 49          | 44          | 44          |
| Asset Turnover (x)            | 1.7         | 1.6         | 1.7         | 1.5         | 1.8         | 2.0         | 2.0         |
| <b>Leverage Ratio</b>         |             |             |             |             |             |             |             |
| Debt/Equity (x)               | 0.1         | 0.1         | 0.0         | 0.0         | 0.1         | 0.1         | 0.0         |

### Cash Flow Statement

|                              |              |              |              |              |              | (INR b)      | (INR b)      |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Y/E March                    | FY18         | FY19         | FY20         | FY21         | FY22         | FY23E        | FY24E        |
| OP/(loss) before Tax         | 31.4         | 33.1         | 36.3         | 43.0         | 41.9         | 60.9         | 72.1         |
| Depreciation                 | 3.6          | 4.3          | 7.8          | 7.9          | 8.2          | 8.6          | 9.0          |
| Net interest                 | -0.4         | -0.3         | 0.1          | 0.2          | -0.1         | -3.2         | -3.4         |
| Others                       | -1.8         | -0.9         | -0.4         | -1.4         | -0.3         | 0.0          | 0.0          |
| Direct Taxes Paid            | -10.8        | -9.8         | -10.1        | -10.8        | -11.8        | -15.3        | -18.2        |
| (Incr)/Decr in WC            | -0.8         | -4.3         | -7.4         | -2.1         | -28.0        | 2.7          | -9.5         |
| <b>CF from Operations</b>    | <b>21.1</b>  | <b>22.1</b>  | <b>26.3</b>  | <b>36.8</b>  | <b>9.9</b>   | <b>53.7</b>  | <b>50.1</b>  |
| Incr in FA                   | -14.1        | -11.3        | -3.7         | -2.5         | -5.0         | -3.0         | -4.0         |
| <b>Free Cash Flow</b>        | <b>7.0</b>   | <b>10.8</b>  | <b>22.6</b>  | <b>34.3</b>  | <b>4.9</b>   | <b>50.7</b>  | <b>46.1</b>  |
| Pur of Investments           | 0.4          | 1.6          | -2.5         | -3.7         | 1.0          | -16.2        | -9.7         |
| Others                       | 2.4          | -3.2         | 7.9          | -25.8        | 14.8         | 15.9         | 5.2          |
| <b>CF from Invest.</b>       | <b>-11.3</b> | <b>-12.9</b> | <b>1.7</b>   | <b>-32.1</b> | <b>10.7</b>  | <b>-3.3</b>  | <b>-8.6</b>  |
| Incr in Debt                 | -0.4         | 0.6          | -2.6         | 0.3          | 3.2          | 0.0          | 0.0          |
| Dividend Paid                | -12.2        | -10.5        | -21.2        | -5.0         | -17.6        | -34.5        | -42.2        |
| Net interest Paid            | -0.4         | -0.5         | -1.0         | -0.9         | -0.9         | 3.2          | 3.4          |
| Others                       | -0.8         | 1.5          | 0.2          | -0.9         | -2.8         | -2.8         | -2.8         |
| <b>CF from Fin. Activity</b> | <b>-13.8</b> | <b>-8.8</b>  | <b>-24.7</b> | <b>-6.5</b>  | <b>-18.1</b> | <b>-34.1</b> | <b>-41.6</b> |
| <b>Incr/Decr of Cash</b>     | <b>-4.0</b>  | <b>0.4</b>   | <b>3.4</b>   | <b>-1.7</b>  | <b>2.5</b>   | <b>16.2</b>  | <b>-0.1</b>  |
| Add: Opening Balance         | 8.0          | 4.0          | 4.4          | 7.8          | 6.1          | 8.6          | 24.9         |
| <b>Closing Balance</b>       | <b>4.0</b>   | <b>4.4</b>   | <b>7.8</b>   | <b>6.1</b>   | <b>8.6</b>   | <b>24.9</b>  | <b>24.8</b>  |

E: MOFSL estimates



| Explanation of Investment Rating |  |
|----------------------------------|--|
| 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 |

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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