

Macrotech Developers

Estimate change



TP change



Rating change



Bloomberg	LODHA IN
Equity Shares (m)	963
M.Cap.(INRb)/(USDb)	720.5 / 8.8
52-Week Range (INR)	753 / 356
1, 6, 12 Rel. Per (%)	8/36/12
12M Avg Val (INR M)	703

Financials & Valuations (INR b)

Y/E Mar	FY23	FY24E	FY25E
Sales	94.7	113.1	134.6
EBITDA	20.7	29.4	35.7
EBITDA (%)	21.8	26.0	26.5
Net profit	15.4	18.3	23.1
EPS (Rs)	16.0	19.0	24.0
EPS Growth (%)	27.2	19.3	26.1
BV/Share (Rs)	131.5	146.7	165.9

Ratios

Net D/E	0.6	0.4	0.2
RoE (%)	12.4	13.7	15.4
RoCE (%)	10.1	9.8	11.9
Payout (%)	0.0	20.0	20.0

Valuations

P/E (x)	46.8	39.2	31.1
P/BV (x)	5.7	5.1	4.5
EV/EBITDA (x)	38.3	26.4	21.0
Div Yield (%)	0.0	0.5	0.6

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	75.0	75.0	82.2
DII	4.1	4.4	1.9
FII	19.8	19.0	14.5
Others	1.1	1.6	1.4

CMP: INR747
TP: INR850 (+14%)
Buy

Steady operational quarter; on track to achieve FY24 guidance

In-line operational performance; pre-sales grows QoQ despite unfavorable seasonality

- LODHA's sales bookings in 1QFY24 grew by 17% YoY/11% QoQ to INR33.5b, which was 5% above our estimate. Residential performance was healthy as pre-sales grew 30% YoY/10% QoQ to INR32b, despite unfavorable seasonality, indicating continued demand momentum.
- Sales volume grew 27% YoY/12% QoQ to 2.8msf. Blended realization was up 4% YoY but down 2% QoQ at ~INR11,400. On LFL basis, realization was up 1% since 4QFY23. LODHA launched 1.8msf of projects in 1Q and the total launch pipeline now stands at 11.2msf vs. 10.6msf indicated in 4QFY23.
- The share of new markets (eastern/western suburbs and Pune) more than doubled to 35% from 16% in 1QFY23, as bookings from these markets grew by two to three fold YoY. The contribution from existing markets (Thane, South & Central Mumbai and extended eastern suburbs) was flat at INR20b.

Net debt up INR2b QoQ; full-year reduction target intact

- Gross collections were down 8% YoY/18% QoQ at INR24b, which led to 38% YoY decline in OCF to INR8b. The company spent INR2b on interest costs and INR8b on land and approvals (acquired as well as future project advances), leading to a deficit of INR1.9b. Accordingly, net debt rose to INR72.6b.
- Despite the increase, LODHA has reiterated its debt reduction target of <0.5x of equity on account of an expected pick-up in collections and moderate investments on new land.
- The company signed up five projects in Alibaug, western suburbs and Bengaluru with GDV potential of INR120b. Including residential development planned at Centaur Hotel (acquired through NCLT), total GDV acquired is INR190b YTD, which is higher than its FY24 guidance of INR175b.

Transition to POCM will align P&L performance closer to actual

- P&L performance was subdued due to lower completion. The company delivered 0.7msf of projects and recognized revenue of INR16b, down 40% YoY and 35% lower than our estimate.
- EBITDA came in at INR3.3b, down 29% YoY, leading to a margin of 20%, up 300bp YoY. Adjusted margin was down 530bp at 28%. Reported PAT was down 34% YoY at INR1.8b, a PAT margin of 10%.
- The company mentioned that it would recognize all sales contracts entered from 1st Apr'23 on POCM basis, based on construction and collection progress. This will enable the company to align its P&L performance closer to operational performance gradually over the next two years.

Key concall highlights

- **Demand and conversion:** Demand remains buoyant, with the conversion rate above 8%. The management believes that the sector is in the third year of its 15-year uptrend and real estate will be one of the largest GDP growth drivers over the next few years.
- The company saw 1% growth in realization and has maintained its target of a 6-7% price hike in FY24.
- **Alibaug foray:** The micro-market is similar to Hamptons for Mumbai and it lacks presence of large developers. The large land parcel will see development of multiple projects in different segments. LODHA expects to launch it in 3-4 quarters. The company intends to position this project as a second-home destination similar to Belmonde project in Pune.
- **EBITDA Margin:** The embedded EBITDA margin stands steady at 31% in 1QFY24 and will improve from FY26 due to price hikes
- **Annuity business:** The FMS business will be RoE accretive, given the low capex and 10%+ margins. Similarly, the digital infra business will bring in additional income in the form of management fee, boosting RoE. In the office and retail segment, the strategy is to build, lease and monetize as it does not match the management's RoE targets. It will only hold on to assets where there is good visibility on rental growth.

Valuation and view: on track to deliver 20% pre-sales growth; retain BUY

- LODHA beat our pre-sales in 1QFY24 and remains on track to achieve its FY24 guidance. We keep our FY24 pre-sales estimate unchanged at INR150b as we expect the company to exceed its pre-sales guidance of INR145b.
- We incorporate the company's transition to the POCM method of accounting and increase our revenue/EBITDA/PAT estimates by 13%/23%/31% for FY24 and 20%/26%/30% for FY25.
- LODHA continues to deliver better-than-expected business development, which will entail further visibility on growth without losing focus on deleveraging. Our terminal growth rate of 4% in our DCF-based methodology is the least it can achieve in the long term, leaving further headroom for re-rating.
- LODHA is one of our top picks in the sector. We retain BUY on the stock with an unchanged TP of INR850, indicating 14% upside potential.

Financial Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E Variance	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	(%/bp)
Gross Sales	26,758	17,654	17,738	32,554	16,174	25,438	33,917	37,528	94,704	1,13,056	25,046	-35
YoY Change (%)	67	-17	-14	-5	-40	44	91	15	2.6	19.4	-6.4	
Total Expenditure	22,091	13,414	13,701	24,837	12,874	18,768	24,752	27,267	74,042	83,661	18,588	
EBITDA	4,667	4,240	4,038	7,717	3,300	6,669	9,164	10,261	20,661	29,395	6,458	-49
Margins (%)	17.4	24.0	22.8	23.7	20.4	26.2	27.0	27.3	21.8	26.0	25.8	
Adj. EBITDA (as per co.)	9,030	5,250	5,700	9,800	4,600	6,669	9,164	10,261	29,780	30,695	9,030	-49
Margins (%)	33.7	29.7	32.1	30.1	28.4	26.2	27.0	27.3	31.4	27.1	36.1	
Depreciation	196	219	217	296	240	250	280	308	928	1,078	300	
Interest	1,193	1,249	1,176	1,172	1,241	979	945	899	4,791	4,064	1,013	23
Other Income	0	-42	1,286	163	544	515	515	487	1,408	2,062	313	74
PBT before EO expense	3,278	2,730	3,931	6,412	2,363	5,956	8,455	9,540	16,350	26,314	5,458	-57
Extra-Ord expense	0	-11,774	0	0	0	0	0	0	-11,774	0	0	
PBT	3,278	-9,044	3,931	6,412	2,363	5,956	8,455	9,540	4,576	26,314	5,458	-57
Tax	559	270	-119	-1,080	556	1,787	2,536	3,015	-370	7,894	1,638	
Rate (%)	17.0	-3.0	-3.0	-16.8	23.5	30.0	30.0	31.6	-0.1	0.3	30.0	
Minority Interest & Profit/Loss of Asso. Cos.	6	16	0	58	15	18	24	23	80	80	20	
Reported PAT	2,713	-9,330	4,050	7,434	1,792	4,151	5,894	6,502	4,866	18,340	3,801	-53
Adj PAT (as per co.)	1,200	3,670	3,000	7,500	1,700	4,151	5,894	6,502	15,370	18,248	3,801	-55
YoY Change (%)	-2	28	8	31	42	13	96	-13	21.9	18.7	216.7	
Margins (%)	4.5	20.8	16.9	23.0	10.5	16.3	17.4	17.3	16.2	16.1	15.2	-466bp

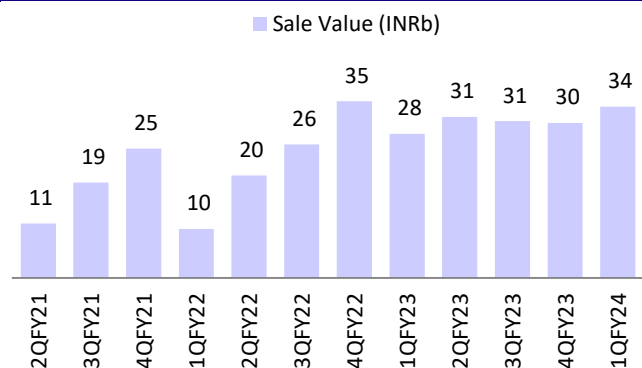
Operational Performance

Key metrics	FY23				FY24E				FY23	FY24E	FY24E	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1QE	(%/bp)
Sale Volume (msf)	2.2	2.1	2.5	2.5	2.8	2.3	3.0	2.6	9.3	10.7	2.7	6
Sale Value (INRb)	28.1	31.5	30.7	30.3	33.5	31.4	37.2	40.8	120.6	142.9	32.1	4
Collections (INRb)	26.2	23.8	26.8	29.3	24.0	28.2	33.3	37.8	106.0	128.1	28.8	-17
Realization (INR/sft)	11,027	13,743	11,920	11,680	11,429	13,880	12,516	15,512	12,056	13,400	12,130	-6

Source: Company, MOFSL

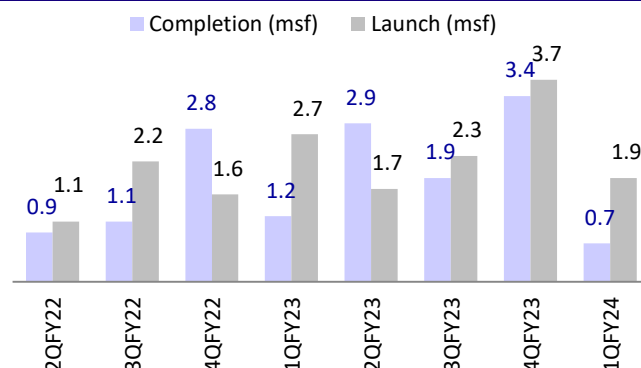
Key exhibits

Exhibit 1: LODHA reported pre-sales of INR34b, up 19% YoY



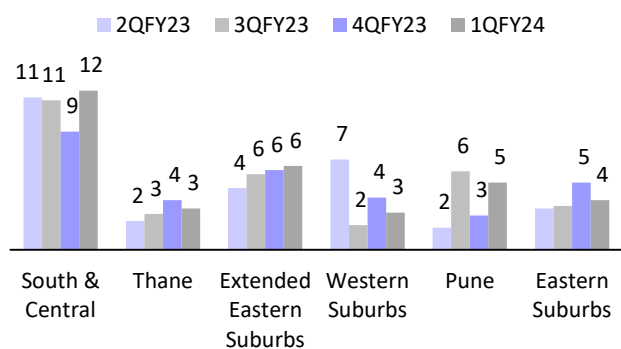
Source: Company, MOFSL

Exhibit 2: Launched 1.9msf and delivered 0.7msf in 1Q



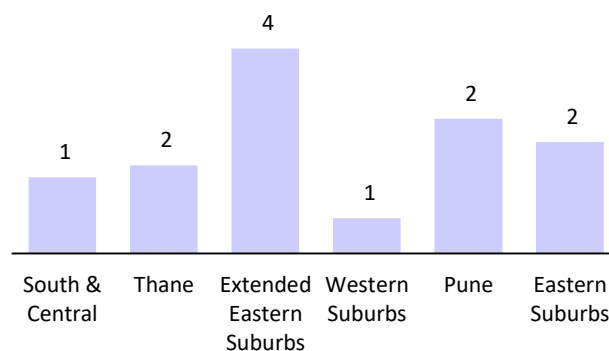
Source: Company, MOFSL

Exhibit 3: LODHA witnessing gradual increase in share of under-penetrated markets in overall sales



Source: Company, MOFSL

Exhibit 4: Strong launch pipeline of 11msf for the next 12 months



Source: Company, MOFSL

Exhibit 5: Launch pipeline for FY24 has a healthy mix of Own/JDA projects

Micro-market	Own/JDA	Area (msf)	Est. GDV (INRb)	No. of Projects
South Central	JDA	0.5	21.7	1
South Central	Own	0.3	13.5	1
Ext. Eastern Suburbs	Own	2.6	17.1	2
Eastern Suburbs	JDA	1.4	22.2	4
Eastern Suburbs	Own	0.3	3.8	1
Western Suburbs	JDA	0.6	13.2	3
Pune	Own	0.6	6.1	2
Pune	JDA	0.8	6.1	3
Thane	Own	1.2	12.6	3
Bengaluru	JDA	1.2	9.3	2
Total		9.4	125.6	22

Source: Company, MOSL

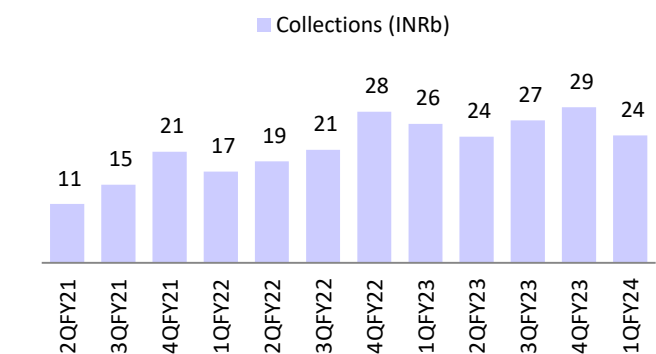
Exhibit 6: In 1QFY24, company signed new projects worth GDV of INR120b

Micro-market	Saleable Area (msf)	Est GDV (INRb)
Signed in FY24		
MMR - South Central	4.3	74
MMR - South Central	1.1	16
MMR - South Central	0.4	12
MMR - Western Suburbs	0.3	10
Bengaluru - South	1	8
Total	7	120

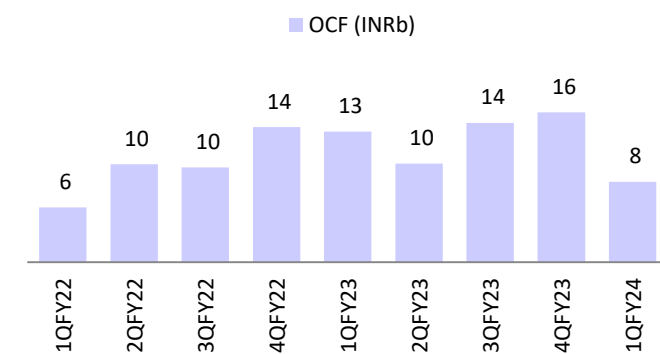
Exhibit 7: Annualized cost inflation for the company's portfolio cooled off since Mar'22

Commodity/Component	% Share in total cost	% Change over Mar'21 to Mar'22	Mar'21 to Jun'23	
			% Change	Weighted Impact
Steel	12.9	35.1	5.4	0.7
Flooring Tiles	5.0	23.9	10.4	0.5
Electrical/Plumbing	11.8	10.1	4.5	0.5
Labour	34.4	3.0	4.3	1.5
External Windows	3.9	21.9	8.4	0.3
RMC	11.0	6.3	13.6	1.5
Lifts & Elevators	3.3	16.6	37.7	1.2
Carpentry Materials	3.5	15.5	5.6	0.2
Painting	3.8	13.1	29.5	1.1
Overall		13.7		10.1

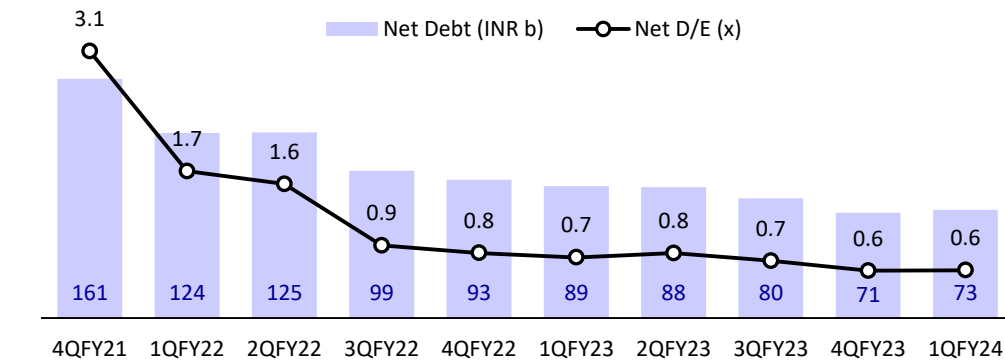
Source: Company, MOFSL

Exhibit 8: Collections were healthy at INR24b

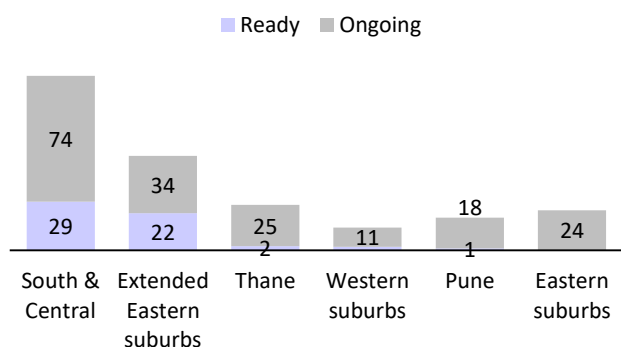
Source: MOFSL, Company

Exhibit 9: The company generated an OCF of INR8b

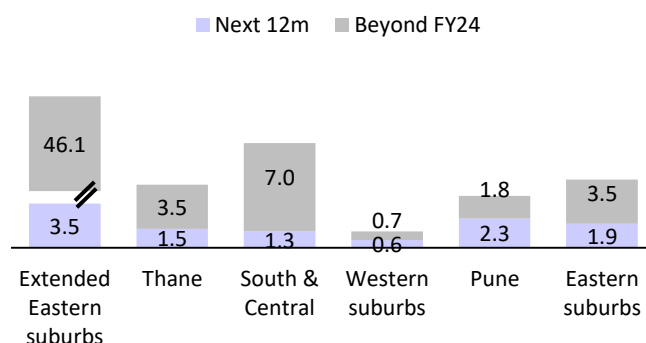
Source: MOFSL, Company

Exhibit 10: Since IPO, the company has seen consistent reduction in net debt

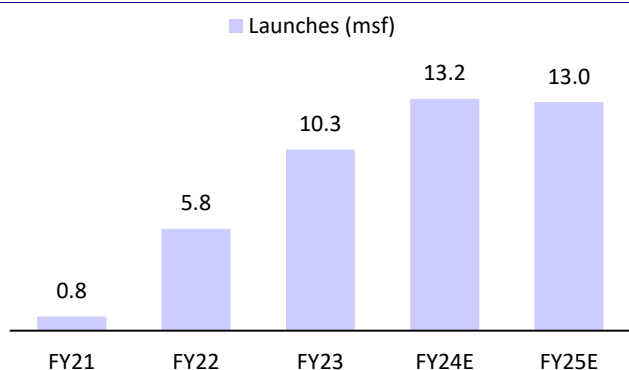
Source: MOFSL, Company

Exhibit 11: Focus on execution led to INR56b of ready inventory, with INR190b of inventory in progress

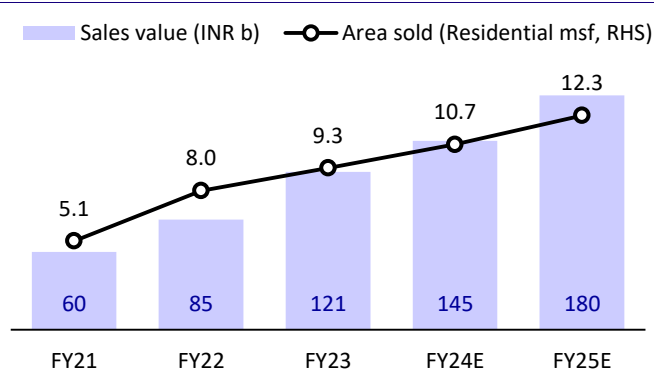
Source: Company, MOFSL

Exhibit 12: The company has a strong ~70msf of pipeline to be launched in the medium term

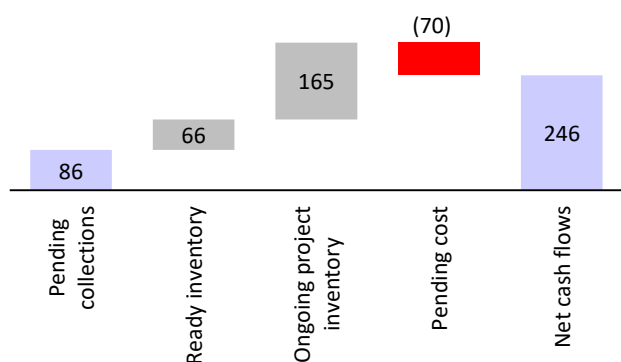
Source: Company, MOFSL

Exhibit 13: Expect launches to further rise from FY24

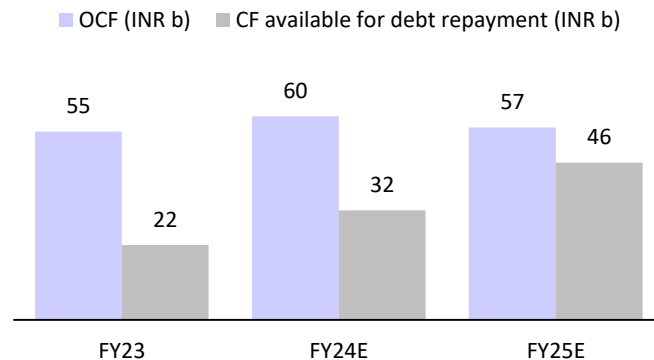
Source: MOFSL, Company

Exhibit 14: The company to report 22% CAGR in pre-sales over FY23-25 to INR180b

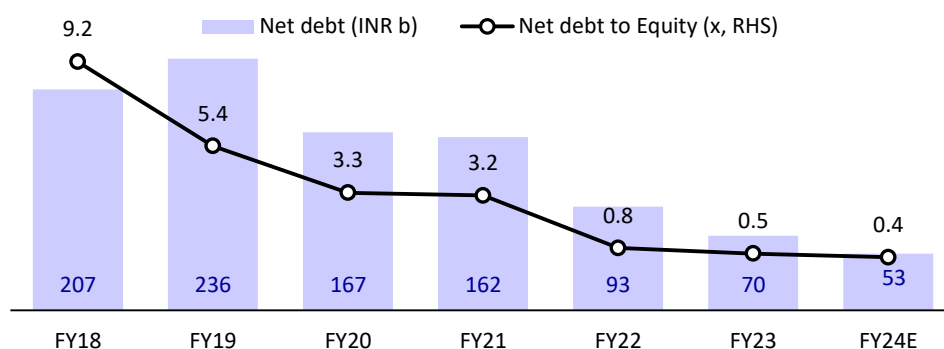
Source: MOFSL, Company

Exhibit 15: Over the next 4-5 years, ongoing and completed project pipeline can generate ~INR250b of net cash inflows

Source: Company, MOFSL

Exhibit 16: Expect the company to generate ~INR60b OCF for the next two years

Source: Company, MOFSL

Exhibit 17: Healthy cash flows could enable accelerated deleveraging

Source: MOFSL, Company

Exhibit 18: Earnings change summary

(INR m)	Old		New		Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,00,184	1,12,424	1,13,056	1,34,604	13%	20%
EBITDA	23,854	28,267	29,395	35,670	23%	26%
Adj. PAT	13,990	17,814	18,340	23,133	31%	30%
Pre-sales	1,44,796	1,79,867	1,44,796	1,79,867	0%	0%
Collections	1,15,371	1,27,206	1,15,371	1,27,206	0%	0%
OCF	59,848	56,523	59,848	56,523	0%	0%

Source: MOFSL, Company



Highlights from management commentary

Western suburbs and Thane

- The western suburbs have a market size of INR250-300b with a vast range of offerings. The company's market share rose to 5-6% from less than 1% three years ago. In the near term, LODHA aims to increase its share to 20%+.
- In Thane, the company holds a large market share despite strong competition from other players.
- Between Thane and western suburbs, the company has 1,000 personnel working in various functions.

Bengaluru

- So far the company has been positively surprised on price growth over the next 12 months. This will further improve the profitability of projects already signed.
- Given the presence of well-established players in the city, LODHA will get access to well-trained talent, which will help it expand its presence in the city.
- On PBT basis, Mumbai projects will have 200bp higher profitability compared to Pune and Bengaluru.

Valuation and view: Profit-led growth trajectory intact; reiterate BUY

- We value LODHA on the SoTP basis: 1) The residential segment is valued using the DCF of four-year cash flows at a WACC of 12% and a terminal growth rate of 2.5%; 2) the commercial business is valued at a cap rate of 8% for operational assets and DCF for ongoing assets; 3) the industrial and UK Investment is valued at a present value of future cash flows, discounted at a WACC of 12%.
- We arrive at NAV of INR818b, assuming net debt of INR51b in FY24. Applying zero discount to its NAV, we arrive at a TP of INR850, indicating a 14% upside potential.

Exhibit 19: Based on SoTP approach, we arrive at NAV of INR818b (or INR8,50 per share), implying a 14% upside potential

Particulars		Value (INR b)	Per share	% contribution
Residential	❖ DCF of 4 years cash flow at WACC of 12% and terminal value assuming 5% long term growth	747	776	91%
Commercial	❖ Cap rate of 8% for operational assets and DCF for ongoing assets	29	30	4%
Industrial	❖ PV of future cash flows discounted at WACC of 12%	83	86	10%
UK Investment	❖ PV of future cash flow discounted at WACC of 12%	8	9	1%
Gross asset value		868	901	106%
Net debt	❖ FY24E	(51)	(52)	-6%
Net asset value		818	849	100%
No. of share (m)		963.0		
Price Objective		850		
CMP		747		
Upside		14%		

Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	1,19,070	1,24,426	54,486	92,332	94,704	1,13,056	1,34,604
Change (%)	-12.0	4.5	-56.2	69.5	2.6	19.4	19.1
Total Expenditure	87,399	1,05,223	40,766	71,085	74,042	83,661	98,934
% of Sales	73.4	84.6	74.8	77.0	78.2	74.0	73.5
EBITDA	31,670	19,203	13,720	21,247	20,661	29,395	35,670
Margin (%)	26.6	15.4	25.2	23.0	21.8	26.0	26.5
Depreciation	1,944	3,064	734	748	928	1,078	1,134
EBIT	29,726	16,139	12,985	20,499	19,733	28,316	34,536
Int. and Finance Charges	5,556	7,315	11,257	6,803	4,791	4,064	3,180
Other Income	719	1,184	3,231	3,460	1,408	2,062	1,806
PBT bef. EO Exp.	24,889	10,008	4,959	17,156	16,350	26,314	33,162
EO Items	0	56	-4,628	0	-11,774	0	0
PBT after EO Exp.	24,889	10,064	332	17,156	4,576	26,314	33,162
Total Tax	8,449	2,615	-147	5,080	-370	7,894	9,949
Tax Rate (%)	33.9	26.0	-44.4	29.6	-8.1	30.0	30.0
Minority Interest	78	130	77	61	80	80	80
Reported PAT	16,361	7,319	402	12,014	4,866	18,340	23,133
Adjusted PAT	16,361	7,278	7,084	12,014	15,370	18,340	23,133
Change (%)	-8.4	-55.5	-2.7	69.6	27.9	19.3	26.1
Margin (%)	13.7	5.8	13.0	13.0	16.2	16.2	17.2

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	3,959	3,959	3,959	4,815	4,815	4,815	4,815
Total Reserves	34,451	41,564	42,031	1,16,235	1,21,809	1,36,480	1,54,987
Net Worth	38,410	45,523	45,990	1,21,050	1,26,624	1,41,295	1,59,802
Minority Interest	5,348	5,192	5,269	568	596	596	596
Total Loans	2,56,406	1,84,232	1,81,669	1,15,367	90,602	73,602	53,602
Deferred Tax Liabilities	-3,206	-935	-2,098	1,911	332	4,629	11,221
Capital Employed	2,96,958	2,34,011	2,30,829	2,38,896	2,18,153	2,20,122	2,25,221
Gross Block	17,704	17,499	17,608	18,318			
Less: Accum. Deprn.	4,877	5,649	6,383	7,130	19,487	20,565	21,699
Net Fixed Assets	12,827	11,851	11,226	11,187	8,059	9,137	10,270
Investment Property	1,933	2,882	2,767	2,650	11,429	11,429	11,429
Goodwill on Consolidation	6,627	5,477	5,471	5,388	1,539	1,539	1,539
Capital WIP	63	63	63	0	5,303	5,303	5,303
Total Investments	14,050	15,529	15,794	5,740	0	0	0
Curr. Assets, Loans&Adv.	4,59,933	3,70,188	3,55,663	3,59,824	2,460	2,380	2,300
Inventory	4,15,124	2,90,314	2,83,007	2,73,583			
Account Receivables	4,843	7,943	6,545	6,461	3,70,816	3,93,808	4,21,873
Cash and Bank Balance	6,575	1,870	3,668	12,457	3,01,167	3,01,999	2,95,022
Loans and Advances	33,390	70,061	62,442	67,322	7,393	4,646	5,532
Curr. Liability & Prov.	1,98,475	1,71,979	1,60,153	1,45,892	18,242	18,150	22,307
Account Payables	22,631	22,728	16,978	15,087	44,013	69,013	99,013
Other Current Liabilities	1,75,490	1,49,012	1,42,963	1,30,581	1,73,393	1,94,337	2,17,223
Provisions	354	239	212	224	20,962	21,682	25,814
Net Current Assets	2,61,457	1,98,210	1,95,509	2,13,932	1,52,129	1,72,353	1,91,107
Misc Expenditure	0	0	0	0	302	302	302
Appl. of Funds	2,96,958	2,34,011	2,30,829	2,38,896	1,97,422	1,99,471	2,04,650

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	45.1	41.3	18.4	17.9	25.0	16.0	19.0	24.0
Cash EPS	55.2	46.2	26.1	19.7	26.5	16.9	20.2	25.2
BV/Share	56.1	97.0	115.0	116.2	251.4	131.5	146.7	165.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	3.8	4.8
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	20.0	20.0
Valuation (x)								
P/E	23.8	25.9	58.3	59.9	43.0	46.8	39.2	31.1
Cash P/E	19.4	23.2	41.0	54.3	40.4	44.1	37.0	29.6
P/BV	19.1	11.0	9.3	9.2	4.3	5.7	5.1	4.5
EV/Sales	4.8	5.7	4.9	11.1	6.7	8.4	6.9	5.6
EV/EBITDA	19.6	21.3	31.6	43.9	29.1	38.3	26.4	21.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.6
FCF per share	16.5	-14.2	94.6	63.9	41.7	28.7	28.6	34.6
Return Ratios (%)								
RoE	80.5	54.0	17.3	15.5	14.4	12.4	13.7	15.4
RoCE	16.4	7.4	4.4	10.2	7.3	10.1	9.8	11.9
RoIC	17.5	7.9	4.8	8.8	6.7	10.2	10.0	12.1
Working Capital Ratios								
Fixed Asset Turnover (x)	8.0	6.7	7.1	3.1	5.0	4.9	5.5	6.2
Asset Turnover (x)	0.6	0.4	0.5	0.2	0.4	0.4	0.5	0.6
Inventory (Days)	1,057	1,273	852	1,896	1,082	1,161	975	800
Debtor (Days)	20	15	23	44	26	28	15	15
Creditor (Days)	58	69	67	114	60	81	70	70
Leverage Ratio (x)								
Current Ratio	1.9	2.3	2.2	2.2	2.5	2.1	2.0	1.9
Interest Cover Ratio	7.6	5.4	2.2	1.2	3.0	4.1	7.0	10.9
Net Debt/Equity	10.0	6.5	4.0	3.9	0.9	0.6	0.4	0.2

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	27,095	24,889	10,007	4,959	17,156	4,576	26,314	33,162
Depreciation	3,979	1,944	3,064	734	748	928	1,078	1,134
Interest & Finance Charges	29,349	30,032	31,119	25,246	19,923	13,890	9,031	6,360
Direct Taxes Paid	-5,647	-3,116	-821	857	-1,778	-2,110	-3,597	-3,356
(Inc)/Dec in WC	-47,652	-59,476	-4,112	-1,218	-7,271	-1,091	-2,141	-1,022
CF from Operations	7,124	-5,726	39,257	30,579	28,778	16,194	30,685	36,278
Others	-164	1,095	-1,525	-5,339	-2,500	11,306	-2,062	-1,806
CF from Operating incl EO	6,960	-4,632	37,732	25,239	26,278	27,499	28,624	34,472
(Inc)/Dec in FA	-416	-991	-292	65	78	149	-1,078	-1,134
Free Cash Flow	6,544	-5,622	37,439	25,304	26,356	27,648	27,545	33,339
(Pur)/Sale of Investments	-5,583	-300	-2,822	-176	1,491	6,817	0	0
Others	-553	-552	5,231	4,310	9,820	10,812	2,062	1,806
CF from Investments	-6,552	-1,843	2,117	4,199	11,389	17,778	983	672
Issue of Shares	0	0	0	0	63,466	100	0	0
Inc/(Dec) in Debt	30,454	37,050	-11,362	-10,325	-72,916	-25,393	-17,000	-20,000
Interest Paid	-30,214	-29,691	-30,534	-18,027	-19,427	-11,756	-9,031	-6,360
Dividend Paid	0	0	0	0	0	0	-3,668	-4,627
Others	0	0	0	0	0	-6	0	0
CF from Fin. Activity	239	7,359	-41,896	-28,351	-28,878	-37,054	-29,699	-30,987
Inc/Dec of Cash	647	885	-2,047	1,087	8,789	8,223	-92	4,157
Opening Balance	1,858	2,552	3,525	1,185	3,668	12,457	20,680	20,588
Closing Balance	2,505	3,437	1,479	2,272	12,457	20,680	20,588	24,745

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UNDER REVIEW	Rating may undergo a change
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