

# Gland Pharma

Estimate change



TP change



Rating change



Bloomberg	GLAND IN
Equity Shares (m)	164
M.Cap.(INRb)/(USDb)	259.4 / 3.1
52-Week Range (INR)	1914 / 861
1, 6, 12 Rel. Per (%)	-5/5/-20
12M Avg Val (INR M)	1048

## Financials & Valuations (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	36.2	54.6	61.0
EBITDA	10.4	13.3	15.6
Adj. PAT	8.3	9.0	10.8
EBITDA Margin (%)	28.6	24.4	25.5
Cons. Adj. EPS (INR)	50.4	54.4	65.7
EPS Gr. (%)	(31.4)	7.8	21.0
BV/Sh. (INR)	483.2	537.6	603.3

## Ratios

Net D:E	(0.5)	(0.3)	(0.4)
RoE (%)	11.0	10.6	11.5
RoCE (%)	11.1	10.2	10.6
Payout (%)	-	-	-

## Valuations

P/E (x)	31.2	29.0	24.0
EV/EBITDA (x)	-	-	-
Div. Yield (%)	1.0	(3.8)	3.0
FCF Yield (%)	6.1	4.4	3.8
EV/Sales (x)	36.2	54.6	61.0

## Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	57.9	57.9	57.9
DII	22.5	23.4	21.9
FII	4.9	2.8	6.1
Others	14.8	16.0	14.1

FII Includes depository receipts

**CMP: INR1,575**

**TP: INR1,920 (+22%)**

**Buy**

## Slowly getting back on track

### Work-in-progress to enhance commercial benefits from Cenexi

- Gland Pharma (GLAND) delivered an in-line operational performance in 2QFY24. Core markets and India showed superior performances, with a normalization in certain key products. GLAND continued its effort to improve the operational performance of Cenexi as well.
- We maintain our FY24/FY25 estimates. We value GLAND at 26x 12M forward earnings to arrive at a TP of INR1,920.
- After posting a 31% earnings decline YoY in FY23 due to several headwinds, GLAND's base business is back on track with a superior performance. It continues to enhance its complex portfolio, with one FTF product already filed and at least two to be submitted to regulatory authorities soon. The company has also expanded its facility for the plasma protein portfolio. Accordingly, we estimate a CAGR of 30%/23%/14% in sales/EBITDA/PAT over FY23-25. **Reiterate BUY.**

### Ex-Cenexi EBITDA margin surpasses YoY as well as QoQ basis

- 2QFY24 revenue grew 31.5% YoY to INR13.7b (in line). Sales in core markets grew 36.4% YoY to INR10.2b (74% of sales). RoW sales grew 18.6% YoY to INR2.7b (19% of sales). India sales grew 21% YoY to INR876m (6% of sales).
- Gross margin (GM) expanded to 62% (from 51% in 2QFY23) due to a change in the product mix and the addition of Cenexi business.
- However, EBITDA margin contracted by 590bp YoY to 23.6% (est. 24%), due to inferior operating leverage (employee costs/other expenses up 12.5%/0.4% YoY as % of sales). It was partly due to the annual summer shutdown of the Cenexi plant for four weeks. Excluding Cenexi, EBITDA margin was up 600bp YoY and 400bp QoQ at 34%.
- Consequently, EBITDA grew 5.3% YoY to INR3.2b (est. INR3.2b).
- Adj. PAT declined by 22.7% YoY to INR1.9b (our estimate: INR2.2b) due to higher depreciation, finance costs and tax expenses.
- For 1HFY24, revenue/EBITDA grew 35.8%/7% YoY to INR25.8b/INR6.2b. PAT declined by 19.2% YoY to INR3.9b.

### Highlights from the management commentary

- Out of total 14 launches in the US market, four were new to market, while the remaining were relaunches.
- Excluding Cenexi, GLAND achieved EBITDA margin of 34% and expects to sustain it at 30-32%.
- Over the next 12-18 months, the company plans to invest EURO60m in Cenexi to improve its capacity and operational efficiency.
- The profit share stood at 11% of standalone revenue in 2Q.
- GLAND, along with its partners, filed 1 ANDA and received 5 approvals in 2Q.

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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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## Consol. - Quarterly perf.

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var (%)
<b>Net Sales</b>	<b>8,569</b>	<b>10,444</b>	<b>9,383</b>	<b>7,850</b>	<b>12,087</b>	<b>13,734</b>	<b>14,178</b>	<b>14,608</b>	<b>36,246</b>	<b>54,608</b>	<b>13,287</b>	3.4
YoY Change (%)	-25.7	-3.3	-11.8	-28.8	41.1	31.5	51.1	86.1	-17.6	50.7	27.2	
Total Expenditure	5,870	7,366	6,487	6,166	9,147	10,493	10,719	10,924	25,888	41,283	10,098	
<b>EBITDA</b>	<b>2,699</b>	<b>3,079</b>	<b>2,895</b>	<b>1,684</b>	<b>2,940</b>	<b>3,241</b>	<b>3,459</b>	<b>3,684</b>	<b>10,358</b>	<b>13,324</b>	<b>3,189</b>	1.6
YoY Change (%)	-38.1	-18.2	-17.0	-51.7	8.9	5.3	19.5	118.8	-31.4	28.6	3.6	
Margins (%)	31.5	29.5	30.9	21.4	24.3	23.6	24.4	25.2	28.6	24.4	24.0	
Depreciation	349	367	376	375	653	813	690	561	1,467	2,717	660	
Interest	9	17	26	22	49	60	45	13	74	168	40	
Other Income	744	656	615	389	375	532	385	237	2,405	1,529	380	
<b>PBT before EO expense</b>	<b>3,085</b>	<b>3,351</b>	<b>3,108</b>	<b>1,676</b>	<b>2,613</b>	<b>2,899</b>	<b>3,109</b>	<b>3,347</b>	<b>11,220</b>	<b>11,968</b>	<b>2,869</b>	1.0
One-off income/(expense)	0	120	0	565	0	0	0	0	685	0	0	
<b>PBT</b>	<b>3,085</b>	<b>3,231</b>	<b>3,108</b>	<b>1,111</b>	<b>2,613</b>	<b>2,899</b>	<b>3,109</b>	<b>3,347</b>	<b>10,536</b>	<b>11,968</b>	<b>2,869</b>	1.0
Tax	793	828	789	325	672	958	774	612	2,735	3,016	723	
Rate (%)	25.7	25.6	25.4	29.2	25.7	33.0	24.9	18.3	26.0	25.2	25.2	
<b>Reported PAT</b>	<b>2,292</b>	<b>2,402</b>	<b>2,319</b>	<b>787</b>	<b>1,941</b>	<b>1,941</b>	<b>2,335</b>	<b>2,735</b>	<b>7,800</b>	<b>8,952</b>	<b>2,146</b>	-9.6
<b>Adj PAT</b>	<b>2,292</b>	<b>2,511</b>	<b>2,319</b>	<b>1,186</b>	<b>1,941</b>	<b>1,941</b>	<b>2,335</b>	<b>2,735</b>	<b>8,307</b>	<b>8,952</b>	<b>2,146</b>	-9.6
YoY Change (%)	-34.6	-16.9	-15.1	-58.5	-15.3	-22.7	0.7	130.6	-31.4	7.8	-14.5	

E: MOFSL Estimates

## Key performance Indicators (Consolidated)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	
INRm	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var (%)
<b>Core Markets</b>	<b>7056</b>	<b>7475</b>	<b>6626</b>	<b>5498</b>	<b>8564</b>	<b>10198</b>	<b>9492</b>	<b>9616</b>	<b>26851</b>	<b>28563</b>	<b>9406</b>	8%
YoY Growth (%)	0.2	12.4	-0.4	-22.7	21.4	36.4	43.3	74.9	-8	6	25.8	
<b>India</b>	<b>510</b>	<b>726</b>	<b>814</b>	<b>647</b>	<b>647</b>	<b>876</b>	<b>749</b>	<b>679</b>	<b>2501</b>	<b>2951</b>	<b>711</b>	23%
YoY Growth (%)	-77.5	-60.4	-58.3	-67.9	26.9	20.7	-8.0	5.0	-60	18	-2.0	
<b>Rest of the world</b>	<b>1002</b>	<b>2243</b>	<b>1943</b>	<b>1705</b>	<b>2876</b>	<b>2660</b>	<b>3637</b>	<b>3963</b>	<b>6984</b>	<b>7054</b>	<b>3170</b>	-16%
YoY Growth (%)	-55.0	-3.4	-4.3	-10.4	187.0	18.6	87.2	132.4	-18	1	41.3	
<b>Cost Break-up</b>												
RM Cost (% of Sales)	43.7	49.1	45.5	46.5	37.5	38.0	37.6	37.0	46.3	37.5	38.0	(2)
Staff Cost (% of Sales)	11.4	9.7	10.8	13.1	21.1	22.2	21.0	20.5	11.1	21.2	21.0	120
Other Cost (% of Sales)	13.4	11.8	12.8	19.0	17.1	16.2	17.0	17.3	14.0	16.9	17.0	(78)
Gross Margins(%)	56.3	50.9	54.5	53.5	62.5	62.0	62.4	63.0	53.7	62.5	62.0	2
EBITDA Margins(%)	31.5	29.5	30.9	21.4	24.3	23.6	24.4	25.2	28.6	24.4	24.0	(40)
EBIT Margins(%)	27.4	26.0	26.9	16.7	18.9	17.7	19.5	21.4	28.4	24.1	19.0	(136)

Note: In 2QFY24 Core markets and Rest of the world includes Cenexi revenue due to consolidation



## Management call highlights

- The management expects near-term EBITDA margin of 13-15% for Cenexi. With GLAND's efforts, Cenexi's profitability is expected to improve gradually over the medium term.
- In 1HFY24, the company has filed one FTF product, which has a market size of USD170m.
- Further, GLAND expects to submit two more complex products soon.
- It continues to evaluate biologics CDMO opportunities.
- Cenexi facilities were not operational for four weeks due to the annual summer shutdown. This led to an operating loss of INR270m for the quarter.

## New strategic initiatives to improve profitability in medium term

## Steady pricing environment/new launches to drive growth in core markets

- In 1HFY24, GLAND's core market sales declined 3% YoY to INR14b, excluding Cenexi revenue. Including Cenexi, core markets jumped 29% YoY to INR10.2b.
- The company is witnessing stable pricing and market share gains in its base products, which aids overall growth.
- In 1HFY24, it filed six ANDAs, received approvals of 15 products and launched 37 products (including re-launches).

- With stability in the base business, future growth will be driven by new product launches, portfolio expansion and market penetration through a partner-led approach.
- Moreover, GLAND would add high-margin products in Cenexi, which would further drive the growth over the medium term.
- Overall, we expect a 10% sales CAGR in core markets over FY23-25 to INR32.7b. This would be supported by additional sales of Cenexi, which should grow 4.6% over FY23-25 to reach INR16.6b.

#### New launches to scale up China business

- GLAND plans to launch 1 product in China in 3QFY24.
- It also plans to launch more products in China considering a better pricing environment.
- Accordingly, we expect a better outlook for the China business.

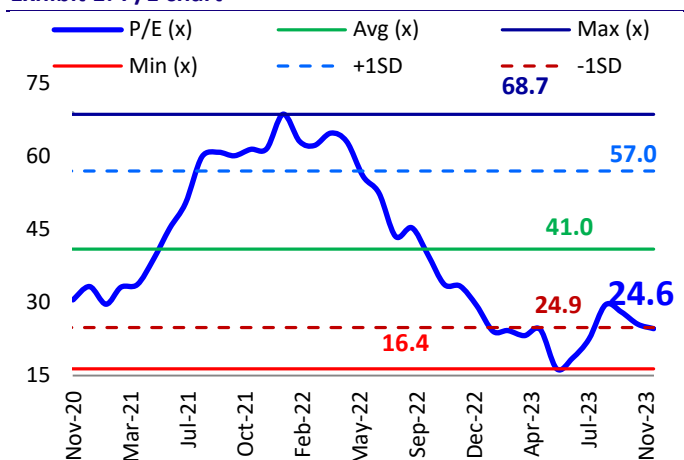
#### Market share gain/geographical expansion/new launches to fuel growth in ROW market

- In 1HFY24, ROW market sales jumped 3.5% YoY to INR3.4b, aided by expanding market reach and new partnerships.
- GLAND registered Azacitidine, Rocuronium Bromide, Enoxaparin Sodium, Foscarnet sodium and Micafungin Sodium in new geographies in 2Q.
- Considering its growing market share and expansion in new geographical areas, we expect ROW sales to reach INR7.5b at a 3.5% CAGR over FY23-25.

#### Maintain Buy

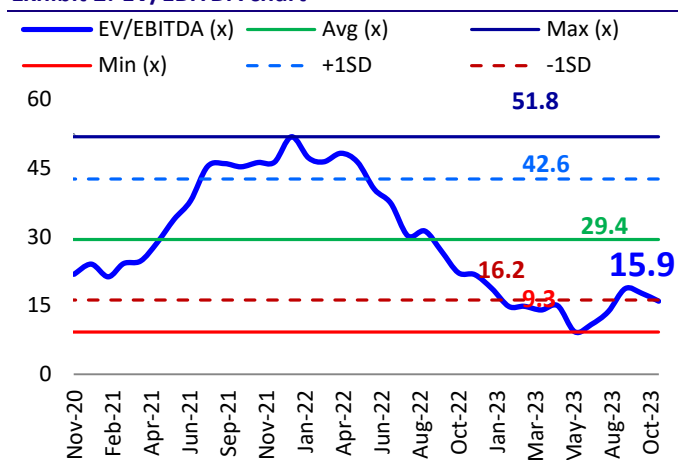
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- After posting a 31% earnings decline YoY in FY23 due to several headwinds, GLAND's base business is back on track with a superior performance. It continues to enhance its complex portfolio, with one FTF product already filed and at least two to be submitted to regulatory authorities soon. The company has also expanded its facility for the plasma protein portfolio. Accordingly, we estimate a CAGR of 30%/23%/14% in sales/EBITDA/PAT over FY23-25. **Reiterate BUY.**

Exhibit 1: P/E chart



Source: MOFSL, Company, Bloomberg

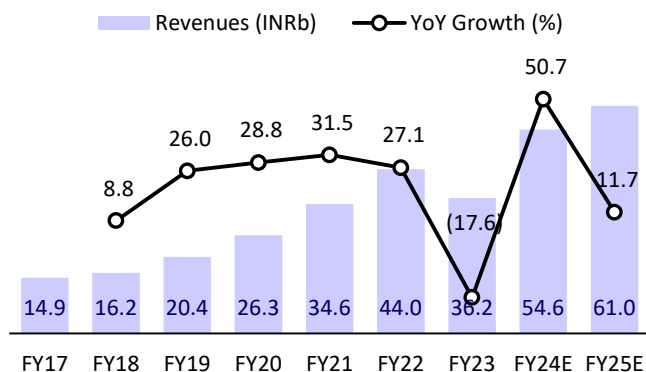
Exhibit 2: EV/EBITDA chart



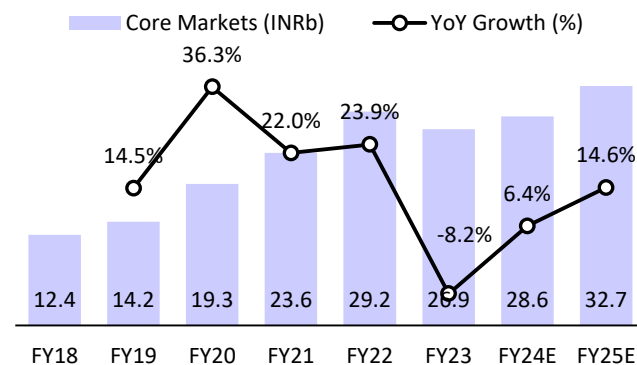
Source: MOFSL, Company, Bloomberg

## Story in charts

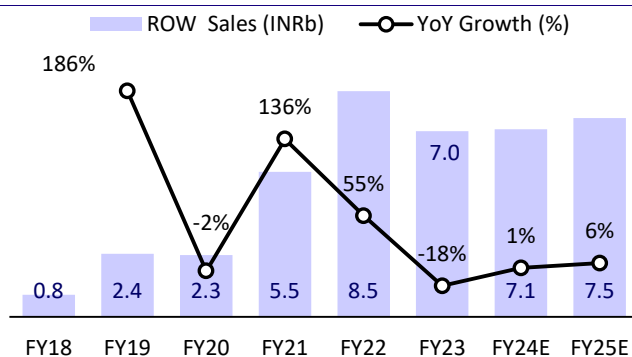
**Exhibit 3: Expect 30% revenue CAGR over FY23-25**



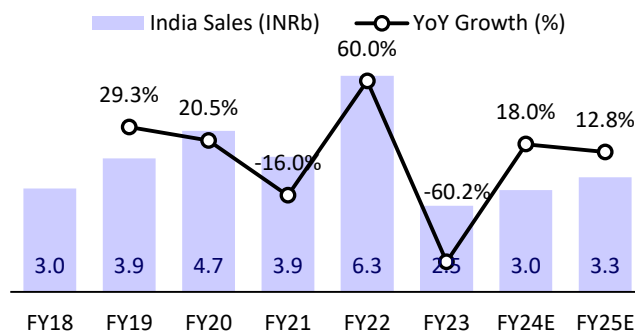
**Exhibit 4: Expect 10% core market sales CAGR over FY23-25**



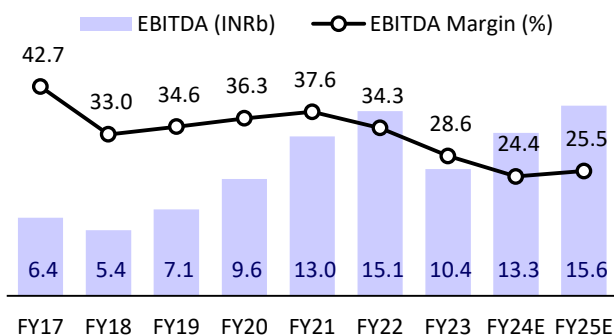
**Exhibit 5: Expect ROW sales to post 3.5% CAGR over FY23-25**



**Exhibit 6: Expect 15.4% India sales CAGR over FY23-25**

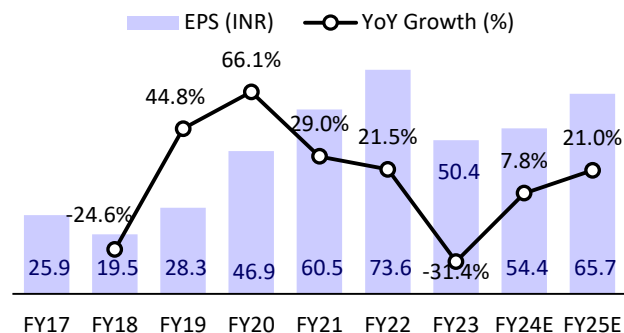


**Exhibit 7: EBITDA margin to bottom out in FY24**



Source: Company, MOFSL

**Exhibit 8: Expect EPS CAGR of 14% over FY23-25**



Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Total Income from Operations</b>	<b>20,442</b>	<b>26,332</b>	<b>34,629</b>	<b>44,007</b>	<b>36,246</b>	<b>54,608</b>	<b>61,012</b>
Change (%)	26.0	28.8	31.5	27.1	-17.6	50.7	11.7
<b>Total Expenditure</b>	<b>13,376</b>	<b>16,778</b>	<b>21,607</b>	<b>28,906</b>	<b>25,888</b>	<b>41,283</b>	<b>45,454</b>
% of Sales	65.4	63.7	62.4	65.7	71.4	75.6	74.5
<b>EBITDA</b>	<b>7,066</b>	<b>9,554</b>	<b>13,022</b>	<b>15,102</b>	<b>10,358</b>	<b>13,324</b>	<b>15,558</b>
Margin (%)	34.6	36.3	37.6	34.3	28.6	24.4	25.5
Depreciation	820	946	988	1,103	1,467	2,717	2,726
<b>EBIT</b>	<b>6,246</b>	<b>8,608</b>	<b>12,034</b>	<b>13,999</b>	<b>8,890</b>	<b>10,607</b>	<b>12,832</b>
Int. and Finance Charges	36	72	34	52	74	168	186
Other Income	856	1,392	1,348	2,239	2,405	1,529	1,830
<b>PBT bef. EO Exp.</b>	<b>7,067</b>	<b>9,928</b>	<b>13,348</b>	<b>16,186</b>	<b>11,220</b>	<b>11,968</b>	<b>14,477</b>
EO Items	-200	0	0	0	-685	0	0
<b>PBT after EO Exp.</b>	<b>6,867</b>	<b>9,928</b>	<b>13,348</b>	<b>16,186</b>	<b>10,536</b>	<b>11,968</b>	<b>14,477</b>
Total Tax	2,345	2,200	3,378	4,069	2,735	3,016	3,648
Tax Rate (%)	34.1	22.2	25.3	25.1	26.0	25.2	25.2
Minority Interest	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>4,522</b>	<b>7,728</b>	<b>9,970</b>	<b>12,117</b>	<b>7,800</b>	<b>8,952</b>	<b>10,829</b>
<b>Adjusted PAT</b>	<b>4,654</b>	<b>7,728</b>	<b>9,970</b>	<b>12,117</b>	<b>8,307</b>	<b>8,952</b>	<b>10,829</b>
Change (%)	44.8	66.1	29.0	21.5	-31.4	7.8	21.0
Margin (%)	21.9	27.9	27.7	26.2	21.5	15.9	17.2

### Consolidated - Balance Sheet

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	155	155	164	164	165	165	165
Total Reserves	28,466	36,307	58,869	71,412	79,423	88,374	99,203
<b>Net Worth</b>	<b>28,621</b>	<b>36,462</b>	<b>59,032</b>	<b>71,576</b>	<b>79,587</b>	<b>88,539</b>	<b>99,368</b>
Minority Interest	0	0	0	0	0	0	0
Total Loans	55	50	39	46	45	9,285	9,285
Deferred Tax Liabilities	1,076	741	739	878	842	842	842
<b>Capital Employed</b>	<b>29,752</b>	<b>37,252</b>	<b>59,810</b>	<b>72,499</b>	<b>80,473</b>	<b>98,665</b>	<b>1,09,494</b>
Gross Block	12,196	13,478	14,327	20,910	23,061	32,398	38,406
Less: Accum. Deprn.	2,908	3,797	4,785	5,888	7,355	10,073	12,799
<b>Net Fixed Assets</b>	<b>9,288</b>	<b>9,681</b>	<b>9,542</b>	<b>15,022</b>	<b>15,705</b>	<b>22,326</b>	<b>25,607</b>
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	1,232	1,885	3,378	1,907	1,772	5,634	2,627
Total Investments	0	0	0	1,549	0	10,080	10,080
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>24,707</b>	<b>29,295</b>	<b>52,040</b>	<b>59,858</b>	<b>70,298</b>	<b>71,260</b>	<b>82,924</b>
Inventory	9,119	7,563	12,752	11,857	19,453	23,752	23,661
Account Receivables	5,061	6,018	6,710	11,988	8,714	12,418	14,041
Cash and Bank Balance	7,534	13,252	30,058	30,934	37,707	28,425	37,775
Loans and Advances	2,994	2,462	2,521	5,079	4,424	6,666	7,447
<b>Curr. Liability &amp; Prov.</b>	<b>5,473</b>	<b>3,608</b>	<b>5,150</b>	<b>5,836</b>	<b>7,302</b>	<b>10,634</b>	<b>11,744</b>
Account Payables	4,568	2,677	4,007	4,629	5,874	8,483	9,340
Other Current Liabilities	765	649	892	960	1,115	1,680	1,877
Provisions	139	282	251	248	313	472	527
<b>Net Current Assets</b>	<b>19,234</b>	<b>25,687</b>	<b>46,890</b>	<b>54,022</b>	<b>62,997</b>	<b>60,626</b>	<b>71,181</b>
Deferred Tax assets	0	0	0	0	0	0	0
Misc Expenditure	0	0	0	0	0	0	0
<b>Appl. of Funds</b>	<b>29,752</b>	<b>37,252</b>	<b>59,810</b>	<b>72,499</b>	<b>80,473</b>	<b>98,665</b>	<b>1,09,494</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>28.3</b>	<b>46.9</b>	<b>60.5</b>	<b>73.6</b>	<b>50.4</b>	<b>54.4</b>	<b>65.7</b>
Cash EPS	35.3	56.0	67.0	80.5	59.3	70.9	82.3
BV/Share	184.7	235.2	360.9	435.6	483.2	537.6	603.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>							
P/E	55.7	33.6	26.0	21.4	31.2	29.0	24.0
Cash P/E	44.6	28.1	23.5	19.6	26.5	22.2	19.1
P/BV	8.5	6.7	4.4	3.6	3.3	2.9	2.6
EV/Sales	11.6	8.8	6.6	5.2	6.1	4.4	3.8
EV/EBITDA	33.5	24.2	17.5	15.1	21.4	18.0	14.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	3.2	34.2	23.0	17.0	16.5	-59.5	46.8
<b>Return Ratios (%)</b>							
RoE	17.7	23.7	20.9	18.6	11.0	10.6	11.5
RoCE	17.7	23.9	20.9	18.6	11.1	10.2	10.6
RoIC	21.9	31.2	37.1	32.5	16.6	16.6	16.9
<b>Working Capital Ratios</b>							
Asset Turnover (x)	1.7	2.0	2.4	2.1	1.6	1.7	1.6
Inventory (Days)	163	116	134	98	196	159	142
Debtor (Days)	90	83	71	99	88	83	84
Creditor (Days)	82	37	42	38	59	57	56
<b>Leverage Ratio (x)</b>							
Net Debt/Equity	-0.3	-0.4	-0.5	-0.45	-0.47	-0.3	-0.4

### Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	6,864	9,929	13,348	16,186	10,536	11,968	14,477
Depreciation	820	946	988	1,103	1,467	2,717	2,726
Interest & Finance Charges/ (Income)	-408	-452	28	33	-2,330	-1,361	-1,645
Direct Taxes Paid	-2,235	-2,441	-3,114	-4,065	-2,735	-3,016	-3,648
(Inc)/Dec in WC	-3,540	-799	-4,358	-3,931	-2,203	-6,911	-1,205
<b>CF from Operations</b>	<b>1,501</b>	<b>7,181</b>	<b>6,893</b>	<b>9,326</b>	<b>4,735</b>	<b>3,397</b>	<b>10,705</b>
Others	350	-172	-843	-1,418	0	0	0
<b>CF from Operating incl EO</b>	<b>1,851</b>	<b>7,009</b>	<b>6,049</b>	<b>7,908</b>	<b>4,735</b>	<b>3,397</b>	<b>10,705</b>
(Inc)/Dec in FA	-1,352	-1,708	-2,283	-5,113	-2,016	-13,200	-3,000
<b>Free Cash Flow</b>	<b>499</b>	<b>5,302</b>	<b>3,766</b>	<b>2,794</b>	<b>2,719</b>	<b>-9,803</b>	<b>7,705</b>
(Pur)/Sale of Investments	0	0	-13,576	-2,613	1,549	-10,080	0
Others	-1,834	-5,902	619	-2,300	2,405	1,529	1,830
<b>CF from Investments</b>	<b>-3,186</b>	<b>-7,610</b>	<b>-15,240</b>	<b>-10,026</b>	<b>1,938</b>	<b>-21,751</b>	<b>-1,170</b>
Issue of Shares	0	0	12,250	0	0	0	0
Inc/(Dec) in Debt	-4	-7	-9	-1	-1	9,240	0
Interest Paid	-25	-62	-23	-33	-74	-168	-186
Dividend Paid	0	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-29</b>	<b>-69</b>	<b>12,386</b>	<b>320</b>	<b>100</b>	<b>9,072</b>	<b>-186</b>
<b>Inc/Dec of Cash</b>	<b>-1,364</b>	<b>-669</b>	<b>3,195</b>	<b>-1,799</b>	<b>6,772</b>	<b>-9,282</b>	<b>9,350</b>
Opening Balance	3,728	2,363	1,694	4,889	3,091	9,863	581
<b>Closing Balance</b>	<b>2,363</b>	<b>1,694</b>	<b>4,889</b>	<b>3,091</b>	<b>9,863</b>	<b>581</b>	<b>9,931</b>
Term Deposit with Banks	5,170	11,558	25,168	27,844	27,844	27,844	27,844
<b>Total Cash &amp; Cash Eq</b>	<b>7,533</b>	<b>13,252</b>	<b>30,057</b>	<b>30,934</b>	<b>37,707</b>	<b>28,425</b>	<b>37,775</b>

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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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