

Vodafone Idea

Estimate changes



TP change



Rating change



Bloomberg	IDEA IN
Equity Shares (m)	67879
M.Cap.(INRb)/(USDb)	1050.1 / 12.5
52-Week Range (INR)	19 / 8
1, 6, 12 Rel. Per (%)	-2/-6/67
12M Avg Val (INR M)	9667

Financials & Valuations (INR b)

INR b	FY24	FY25E	FY26E
Net Sales	427	453	525
EBITDA	171	187	227
Adj. PAT	-320	-290	-280
EBITDA Margin (%)	40.2	41.4	43.3
Adj. EPS (INR)	-11.1	-10.1	-9.7
EPS Gr. (%)	9.3	-9.3	-3.7
BV/Sh. (INR)	-32.4	-34.9	-43.6

Ratios

Net D:E	-2.4	-2.3	-2.0
RoE (%)	NM	NM	NM
RoCE (%)	-3.6	-2.4	-1.0
Payout (%)	0.0	0.0	0.0

Valuations

EV/EBITDA (x)	19.2	17.9	15.9
P/E (x)	-1.4	-1.5	-1.6
P/B (x)	-0.5	-0.4	-0.4
Div. Yield (%)	0.0	0.0	0.0

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	38.2	48.9	50.4
DII	31.3	34.4	33.9
FII	12.7	2.0	2.3
Others	17.9	14.7	13.4

FII Includes depository receipts

CMP: INR15

TP: INR15

Neutral

Revenue down marginally; subscriber loss continues

- Vodafone Idea (VIL) reported a 1%/4% revenue/EBITDA decline sequentially (pre-Ind-AS-116), due to subscriber loss, flat ARPU, and operating deleverage. Overall subscriber loss of 2.5m continued, but data subscribers remained flat.
- The capital raise has led to some respite as the long pending capex and continuous subscriber churn were hurting its operating performance. With the fundraising, the capex was directed towards the rollout of 4G and 5G. We broadly retain our estimates and expect revenue/EBITDA (pre-Ind-AS-116) CAGR at 11%/31% over FY24-26. Assuming a 15x EV/EBITDA and a net debt of INR2t, there is limited opportunity for the stock.

Pre-Ind-AS EBITDA declines 4% sequentially

- VIL's revenue declined 1% QoQ to INR105b (in line), due to a 1% QoQ subscriber loss (2.5m loss). ARPU was flat QoQ at INR146.
- Reported EBITDA declined 3% QoQ to INR42b (in line) and margin contracted 90bp QoQ to 40% due to operating deleverage.
- **Pre-Ind-AS EBITDA declined 4% QoQ to INR21b (in line), and margin contracted 60bp QoQ to 20%.**
- Interest cost includes two exceptions: a) VIL reversed the interest cost of INR2.63b following the Hon'ble Supreme Court's pronouncement of a further judgment regarding the waiver of interest on tax and b) INR6.5b towards reversal of interest accruals towards vendors.
- **Adj. net loss reduced to INR73b from INR77b loss on a QoQ basis.**
- Net debt reduced INR114b to INR1.96t. This included: 1) Spectrum and AGR debt, which accounted for INR2.1b, and b) market debt at INR47b.
- Capex increased to INR7.6b (from INR5.5b in 4Q) and INR18.5b in FY24.

Highlights from the management commentary

- **Tariff-led revenue growth:** With the current tariff hike, VIL expects a 17% blended price hike in the prepaid category, which could result in revenue growth at 2/3rd to 3/4th of the hike.
- **Churn rate should reduce:** VIL expects entry-price subscribers would not see SIM consolidation. However, it will closely monitor the BSNL actions and subscriber movements. It expects the churn rate to come down after the next quarter as the capex deployment will commence.
- **Capex guidance intact:** Capex guidance continues to remain in the range of INR500-550b over the next three years, with the majority of the capex to be front-ended. Management is in talks with vendors to deploy hardware/sites and expects the discussion to end by Aug/Sep'24.
- **Tower additions:** Management expects the unique towers to increase to around 210-220k from 183k. There could be some exits in the existing towers, but the 4G towers could reach ~215k (20-25k additions p.a.).

Valuation and view

- VIL has experienced a continued rise in ARPU, led by the shift to 4G, higher data monetization, and an increase in minimum recharge vouchers. However, there has been an elevated subscriber churn during this period.
- Limited network investments had slowed the customer experience, resulting in subscriber churn. Improvement in network investment may take 2-3 years. With this, the company expects to restrict the subscriber churn and grow its data subscriber base.
- The company expects to invest INR500-550b over the next three years toward expanding 4G coverage, 5G launch, capacity expansion, which holds significant importance.
- However, it still holds a debt of INR2t with an annual installment of INR430b from FY26 onwards. This looks challenging against the 1QFY25 annualized EBITDA (IND-AS 116) of INR80b.
- The significant amount of cash required to service debt leaves limited upside opportunities for equity holders, despite the high operating leverage opportunity from any source of ARPU improvement. We expect the conversion into equity of unpaid installments post-moratorium to start by FY26/27.
- We are factoring in a revenue/EBITDA CAGR of 11/31% over FY24-26E. Assuming 15x EV/EBITDA, coupled with net debt, we derive our TP of INR15. Reduction in AGR liability and restriction in subscriber churn rate could remain the key catalysts for the stock. **We reiterate our Neutral rating on the stock.**

Consolidated - Quarterly Earnings Model

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	(INR b)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	Est Var (%)	
Revenue	107	107	107	106	105	111	118	120	427	453	106	-0.9
YoY Change (%)	2.4	1.0	0.5	0.7	-1.4	3.1	10.2	12.8	1.1	6.2	0.6	
Total Expenditure	65	64	63	63	63	65	69	69	255	265	64	-1.0
EBITDA	42	43	44	43	42	46	49	51	171	187	42	-0.7
YoY Change (%)	-4.0	4.5	4.1	3.0	1.1	6.8	12.6	17.0	1.8	9.5	0.5	
Depreciation	56	57	56	58	54	55	57	59	226	224	59	-8.5
Net Finance Costs	64	65	65	62	53	64	64	64	257	245	63	-17.0
PBT before EO expense	-78	-79	-77	-77	-64	-73	-72	-72	-312	-281	-80	19.4
Extra-Ord expense	0	0	-8	0	0	0	0	0	-8	0	0	
PBT	-78	-79	-70	-77	-64	-73	-72	-72	-304	-281	-80	19.4
Tax	0.0	8.2	0.0	0.1	0.1	0.0	0.0	-0.1	8.3	0.0	0.0	
Rate (%)	0.0	-10.3	0.0	-0.1	-0.1	0.0	0.0	0.1	-2.7	0.0	0.0	
Reported PAT	-78	-87	-70	-77	-64	-73	-72	-72	-312	-281	-80	19.4
Adj PAT	-78	-87	-77	-77	-73	-73	-72	-72	-320	-290	-80	7.9
YoY Change (%)	7.4	15.0	-3.1	20.0	-6.3	-16.4	-7.0	-6.5	9.3	-9.3	24.7	

E: MOFSL Estimates

Exhibit 1: Debt break-up (INR b)

Net debt classification	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	QoQ
Spectrum debt	1,166	1,367	1,398	1,307	1,337	1,351	1,382	1,331	1,392	61
Market debt	152	151	132	114	95	79	61	40	47	6
Optionally Convertible Debentures	0	0	0	16	16	16	17	2	2	-
Total debt	1,318	1,517	1,530	1,437	1,449	1,446	1,460	1,373	1,440	67
Cash and equivalents	9	2	2	2	3	1	3	2	182	180
Net Debt excluding AGR	1,309	1,515	1,528	1,435	1,446	1,445	1,456	1,371	1,259	(113)
AGR dues	673	686	699	656	669	682	690	703	703	0
Net debt including AGR	1,982	2,201	2,227	2,090	2,115	2,127	2,147	2,075	1,962	-113

Source: MOFSL, Company

Operating performance

- **VIL's subscriber loss (since the last 23 quarters) stood at 2.5m (vs. 2.6m in 4Q; with an average 4m loss in the last eight quarters) to 210.1m**
- Active subs too saw a decline of 5m (vs. average 4m loss in the last eight quarters) to 188.3m. RJio/Airtel added 7.9m/2.3m subscribers on a net basis during the quarter.
- Churn elevated to 4% (vs. 3.9% QoQ). Churn for RJio/Airtel stood at 1.7%/2.8%.
- Data subscribers were flat QoQ at 136.9m (65% of total subscribers).
- 4G subscribers were flat QoQ at 126.7m (60% of total subscribers).
- **ARPU stood flat QoQ to INR146; it has slowed down (vs. +2% in the last eight quarters).**
- Data traffic improved 1% QoQ to 6.1GB. Data usage/subs increased 5% QoQ to 15.4GB.
- MOU (min/sub/month) declined 3% QoQ to 607min. RJio/Airtel's MOU were 974mins/1,128mins.

Strategic plans

- **Capex is expected to be in the range of INR500-550b over the next three years, and VIL is in discussion towards debt funding.**
- Following the recent equity raise, VIL is in the process of expanding its 4G coverage and capacity as well as the launch of 5G services.
- Some capex has already been ordered, and it is under execution. We expect ~15% increase in data capacity and an increase in 4G population coverage by ~16m by end-Sep'24.
- It has completely shut down its 3G sites in seven circles and is in the process of shutting down 3G across other circles as well.

Exhibit 2: Valuation based on FY26E EV/EBITDA

	Methodology	Driver	Multiple	Fair Value (INRb)	Value/sh (INR)
Consol EBITDA	EV/EBITDA	227	15	3,411	50
Less Net debt				2,364	35
Total Value				1046	15
Shares o/s (b)				67.9	
CMP (INR)					15
Upside (%)					0

Source: MOFSL, Company



Highlights from the management commentary

Key takeaways:

■ Subscribers/ARPU:

- VIL expects entry-price subscribers would not see SIM consolidation. However, it will closely monitor the BSNL actions and subscriber movements.
- It expects the churn rate to come down after the next quarter as the capex deployment will commence.
- With the current tariff hike, VIL expects a 17% blended price hike in the prepaid category, which could result in revenue growth at 2/3rd to 3/4th of the hike. .

■ Capex plans:

- **Capex is under execution and management expects capex to be in range of INR500-550b over the next three years. The majority of the capex will be front ended.**
- VIL is in the process of expanding 4G coverage and capacity as well as launch of 5G services.
- Some capex has already been ordered and under execution and expect ~15% increase in data capacity and an increase in 4G population coverage by ~16m by end Sep'24.
- Management is in talks with vendors to deploy hardware/sites and expects the discussion to end by Aug/Sep'24.

■ Debt raise: In discussions with a consortium of banks to raise up to INR250b and additional non-fund based facilities of up to INR100b.

■ Shutting down 3G:

- It is completely shutting down 3G sites in seven circles (including Haryana in 1Q) and in the process of shutting down 3G across other circles as well by year end.
- Re-farming from 3G to 4G is already done. The closure of 3G sites is due to equipment's not able to convert to 4G.
- Added 6600 4G sites in 1Q and has deployed ~74,750 TDD sites, ~13,950 Massive MIMO sites and ~13,250 small cells till date.

■ Tower additions: Management expects the unique towers to increase to around 210-220k from 183k. There could be some exits in the existing towers, but the 4G towers could reach ~215k (20-25k additions p.a.).

■ Spectrum: Expanding 900MHz presence in 14 circles at multiple locations, which will improve customer experience and with the recent additional 900 MHz spectrum acquisition company will be able to expand 900MHz band in 16 out of 17 priority circles.

Exhibit 3: Consolidated performance

Consolidated P&L (INR m)	1QFY24	4QFY24	1QFY25	YoY%	QoQ%	1QFY25E	v/s est (%)
Revenue	1,06,555	1,06,068	1,05,083	-1.4	-0.9	1,05,987	-0.9
Operating expenses	64,985	62,710	63,036	-3.0	0.5	63,663	-1.0
EBITDA	41,570	43,358	42,047	1.1	-3.0	42,325	-0.7
<i>EBITDA margin (%)</i>	<i>39.0</i>	<i>40.9</i>	<i>40.0</i>	<i>100bps</i>	<i>-86bps</i>	<i>39.9</i>	<i>8bps</i>
EBITDA (pre IND AS 116)	20,200	21,800	21,000	4.0	-3.7	20,767	1.1
<i>EBITDA margin (%) (pre IND AS 116)</i>	<i>19.0</i>	<i>20.6</i>	<i>20.0</i>	<i>103bps</i>	<i>-57bps</i>	<i>19.6</i>	<i>39bps</i>
Depreciation and amortization	56,165	57,513	53,691	-4.4	-6.6	58,663	-8.5
EBIT	-14,595	-14,155	-11,644	-20.2	-17.7	-16,339	28.7
<i>EBIT margin (%)</i>	<i>-13.7</i>	<i>-13.3</i>	<i>-11.1</i>	<i>262bps</i>	<i>226bps</i>	<i>-15.4</i>	<i>433bps</i>
Net Finance Costs	63,769	62,478	52,623	-17.5	-15.8	63,415	-17.0
Share of Associates	-6	-26	1	-116.7	-103.8	-27	-103.8
Profit before Tax	-78,370	-76,659	-64,266	-18.0	-16.2	-79,780	19.4
Exceptional item (gain)/loss	0	0	0	NM	-	0	-
Tax	30	87	55	83.3	-36.8	0	-
<i>Tax rate (%)</i>	<i>0.0</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-5bps</i>	<i>3bps</i>	<i>0.0</i>	<i>-9bps</i>
Profit after Tax	-78,400	-76,746	-64,321	-18.0	-16.2	-79,780	19.4
Adj. Profit after Tax	-78,400	-76,746	-73,451	-6.3	-4.3	-79,780	7.9

Source: MOFSL, Company

Exhibit 4: Key operating metrics

Key Operating Metrics	1QFY24	4QFY24	1QFY25	YoY%	QoQ%	1QFY25E	v/s est (%)
Subscriber Base (m)	221.4	212.6	210.1	-5.1%	-1.2%	210.6	-0.2
VLR Subscribers (m)	202.7	193.3	188.3	-7.1%	-2.6%		
Net VLR Subscriber (m)	-5.2	-3.4	-5	-3.8%	47.1%		
Pre-paid Subs (%)	89.7%	88.8%	88.5%	-1.3%	-0.3%		
Blended ARPU (INR)	139.0	146.0	146.0	5.0%	0.0%	147.5	-1.0
Voice metrics							
MOU (min/sub/month)	627	627	607	-3.2%	-3.2%	633.3	-4.1
Blended churn	3.90%	3.9%	4.0%	2.6%	2.6%	3.9%	
Data metrics							
Data subs (m)	135.9	137.3	136.9	0.7%	-0.3%		
<i>as a % of overall subs</i>	<i>61.4%</i>	<i>64.6%</i>	<i>65.2%</i>	<i>6.2%</i>	<i>0.9%</i>		
4g subs	122.9	126.4	126.7	3.1%	0.2%		
Total Data traffic (m GB)	6,002	6,049	6,111	1.8%	1.0%		
Data usage/subs (mb)	14,705	14,680	15,414	4.8%	5.0%		
Tower details							
Total Unique Towers (EoP)	1,83,638	1,83,758	1,83,323	-0.2%	-0.2%		
Total Unique Broadband Towers (EoP)	1,70,411	1,70,530	1,70,813	0.2%	0.2%		
Total Broadband sites (3G+4G)	4,42,062	4,30,705	4,17,245	-5.6%	-3.1%		

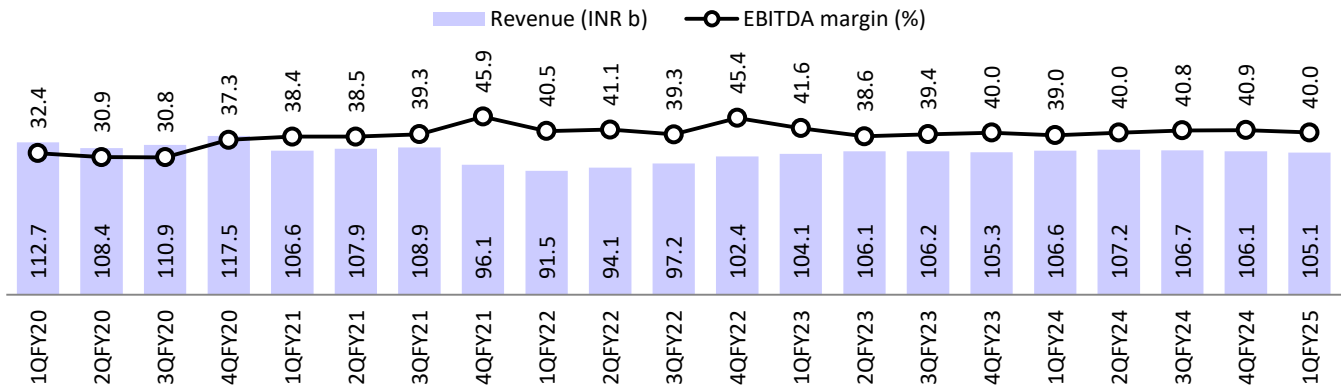
Exhibit 5: Summary of our estimate revisions

	FY25E	FY26E
Revenue (INRb)		
Old	457	530
Actual/New	453	525
Change (%)	-1.0	-1.0
EBITDA (INRb)		
Old	192	233
Actual/New	187	227
Change (%)	-2.3	-2.3
EBITDA margin (%)		
Old	42.0	43.9
Actual/New	41.4	43.3
Change (bp)	-57bps	-57bps
Net Profit (INRb)		
Old	-314	-298
Actual/New	-281	-280
Change (%)	10.6	6.2
Adj. EPS (INR)		
Old	-10.9	-10.4
Actual/New	-9.8	-9.7
Change (%)	10.6	6.2

Source: Company, MOFSL

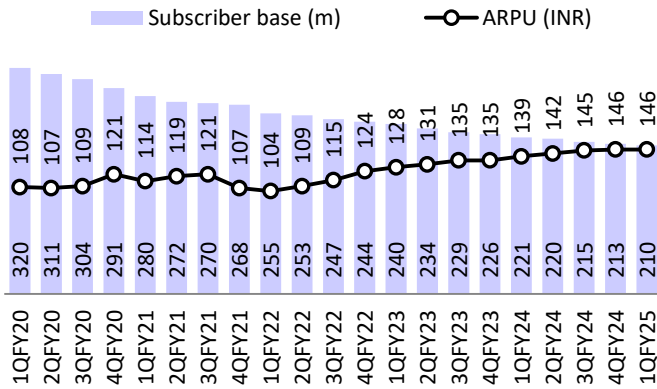
Story in charts

Exhibit 6: Revenue declined 1% QoQ led by subscriber loss and flat ARPU



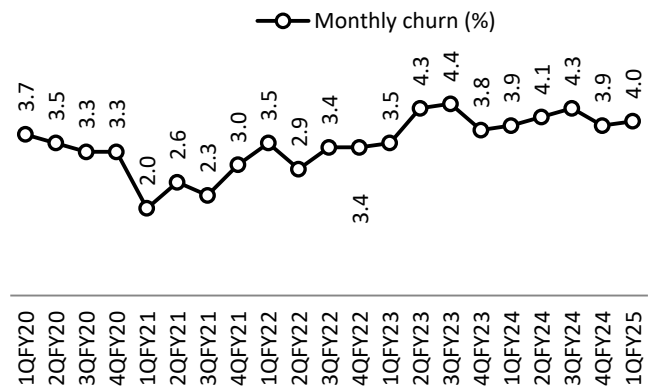
Source: MOFSL, Company

Exhibit 7: Subs declined, while ARPU remained flat



Source Company, MOFSL

Exhibit 8: Monthly churn remained elevated



Source Company, MOFSL

Exhibit 9: Voice traffic declined

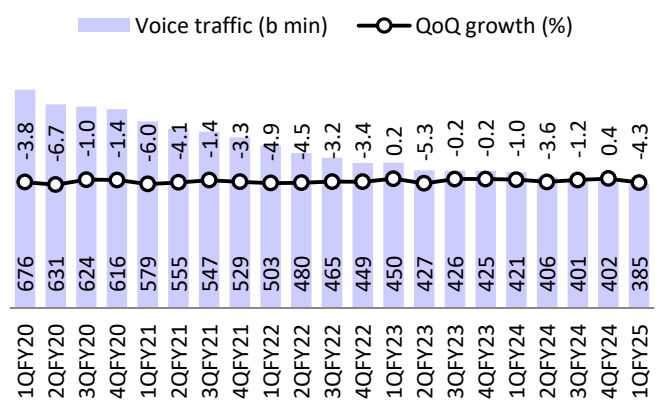
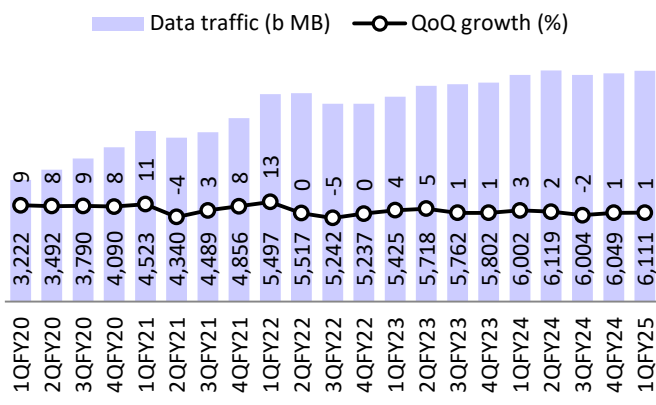


Exhibit 10: Data traffic increased 1% QoQ



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	371	450	420	385	422	427	453	525
Change (%)	31.2	21.2	-6.7	-8.2	9.5	1.1	6.2	15.9
Total Expenditure	330	300	250	225	254	255	265	298
% of Sales	89.1	66.8	59.6	58.4	60.1	59.8	58.6	56.7
EBITDA	40	149	169	160	168	171	187	227
Margin (%)	10.9	33.2	40.4	41.6	39.9	40.2	41.4	43.3
Depreciation	145	244	236	236	230	226	224	243
EBIT	-105	-94	-67	-75	-62	-55	-36	-16
Int. and Finance Charges	87	144	178	209	230	257	245	264
PBT bef. EO Exp.	-192	-238	-245	-284	-293	-312	-281	-280
Share of profits of associates	2	4	2	0	0	0	0	0
EO Items	-9	384	200	-2	0	-8	0	0
PBT after EO Exp.	-182	-618	-443	-282	-293	-304	-281	-280
Total Tax	-36	121	0	0	0	8	0	0
Tax Rate (%)	19.7	-19.5	0.0	0.0	0.0	-2.7	0.0	0.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	-146	-739	-442	-282	-293	-312	-281	-280
Adjusted PAT	-161	-217	-243	-284	-293	-320	-290	-280
Change (%)	NM	34.5	11.7	17.1	3.1	9.3	-9.3	-3.7
Margin (%)	-43.5	-48.3	-57.8	-73.8	-69.4	-75.0	-64.1	-53.2

Consolidated - Balance Sheet

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	87	287	287	321	487	501	679	679
Total Reserves	509	-228	-670	-941	-1,230	-1,543	-1,801	-2,080
Net Worth	596	60	-382	-620	-744	-1,042	-1,122	-1,402
Total Loans	1,085	1,106	1,660	2,138	2,444	2,511	2,742	2,866
Deferred Tax Liabilities	-103	0	0	0	0	0	0	0
Capital Employed	1,579	1,166	1,277	1,518	1,701	1,469	1,620	1,465
Gross Block	2,147	2,471	2,524	2,653	2,878	2,943	3,143	3,343
Less: Accum. Deprn.	369	612	849	1,085	1,315	1,541	1,765	2,009
Net Fixed Assets	1,778	1,858	1,675	1,568	1,563	1,401	1,377	1,334
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	51	11	6	4	179	182	182	182
Total Investments	82	20	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	282	380	354	368	331	267	441	329
Inventory	0	0	0	0	0	0	0	0
Account Receivables	33	31	25	24	22	22	23	27
Cash and Bank Balance	10	27	22	35	9	5	164	30
Loans and Advances	239	322	307	309	301	239	254	273
Curr. Liability & Prov.	615	1,103	757	422	372	381	381	381
Account Payables	611	1,100	757	422	372	380	380	380
Provisions	4	4	1	1	0	0	0	0
Net Current Assets	-333	-724	-404	-54	-41	-114	61	-51
Appl. of Funds	1,579	1,166	1,277	1,518	1,701	1,469	1,620	1,465

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	-18.5	-7.6	-8.4	-9.9	-10.2	-11.1	-10.1	-9.7
Cash EPS	-1.8	0.9	-0.2	-1.7	-2.2	-3.3	-2.3	-1.3
BV/Share	68.3	2.1	-13.3	-19.3	-23.2	-32.4	-34.9	-43.6
DPS	0.0	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	0.0
Valuation (x)								
P/E	-0.8	-2.0	-1.8	-1.6	-1.5	-1.4	-1.5	-1.6
Cash P/E	-8.4	16.9	-71.0	-9.2	-7.1	-4.7	-6.7	-12.3
P/BV	0.2	7.4	-1.2	-0.8	-0.7	-0.5	-0.4	-0.4
EV/Sales	3.3	3.4	5.0	6.7	7.6	7.7	7.4	6.9
EV/EBITDA	27.9	10.1	12.3	16.2	19.0	19.2	17.9	15.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)								
RoE	-37.2	-66.2	NM	NM	NM	NM	NM	NM
RoCE	-6.7	-7.9	-5.5	-5.4	-3.9	-3.6	-2.4	-1.0
RoIC	-7.8	-8.9	-5.7	-5.5	-4.2	-4.0	-2.9	-1.3
Working Capital Ratios								
Fixed Asset Turnover (x)	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2
Asset Turnover (x)	0.2	0.4	0.3	0.3	0.2	0.3	0.3	0.4
Inventory (Days)	0	0	0	0	0	0	0	0
Debtor (Days)	32	25	22	23	19	19	19	19
Leverage Ratio (x)								
Current Ratio	0.5	0.3	0.5	0.9	0.9	0.7	1.2	0.9
Interest Cover Ratio	-1.2	-0.7	-0.4	-0.4	-0.3	-0.2	-0.1	-0.1
Net Debt/Equity	1.7	17.7	-4.3	-3.4	-3.3	-2.4	-2.3	-2.0

Consolidated - Cash Flow Statement

(INR b)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	-182	-618	-443	-282	-293	-304	-281	-280
Depreciation	145	244	236	236	230	226	224	243
Interest & Finance Charges	88	144	178	209	234	258	245	264
Direct Taxes Paid	3	24	8	15	-13	0	0	0
(Inc)/Dec in WC	28	-92	-14	-3	6	6	-16	-22
CF from Operations	83	-299	-34	174	189	186	171	205
Others	-29	372	191	0	0	0	0	0
CF from Operating incl EO	53	73	156	174	189	186	171	205
(Inc)/Dec in FA	-76	-78	-45	-57	-55	-20	-200	-200
Free Cash Flow	-22	-5	111	117	133	167	-29	5
(Pur)/Sale of Investments	-4	65	42	0	0	0	0	0
Others	6	-15	14	0	1	0	0	0
CF from Investments	-74	-28	11	-57	-54	-19	-200	-200
Issue of Shares	0	249	0	45	4	0	201	0
Inc/(Dec) in Debt	21	-81	-44	-53	-51	-74	131	124
Interest Paid	-51	-153	-28	-28	-21	-29	-145	-264
Others	57	-65	-96	-69	-79	-87	0	0
CF from Fin. Activity	28	-49	-167	-106	-147	-190	187	-139
Inc/Dec of Cash	7	-4	0	11	-12	-23	158	-134
Opening Balance	0	8	4	4	15	2	2	160
Closing Balance	8	4	4	15	2	-20	160	26
Other Balances	2	23	19	20	6	26	4	4
Total Balance	10	27	22	35	9	5	164	30

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NOTES

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BUY	>=15%
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