

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	TECHM IN
Equity Shares (m)	979
M.Cap.(INRb)/(USDb)	1574.5 / 18.3
52-Week Range (INR)	1808 / 1209
1, 6, 12 Rel. Per (%)	-6/-13/4
12M Avg Val (INR M)	3400

Financials & Valuations (INR b)

Y/E Mar	FY25	FY26E	FY27E
Sales	530	556	594
EBIT Margin (%)	9.7	12.3	14.4
Adj. PAT	42.5	54.4	69.5
Adj. EPS (INR)	47.9	61.3	78.3
PAT	42.5	54.4	69.5
EPS (INR)	47.9	61.3	78.3
EPS Gr. (%)	79.8	27.9	27.7
BV/Sh. (INR)	309.0	317.6	329.2
Ratios			
RoE (%)	15.7	19.6	24.2
RoCE (%)	16.4	21.1	25.8
Payout (%)	93.9	85.0	85.0
Valuations			
P/E (x)	33.5	26.2	20.5
P/BV (x)	5.2	5.1	4.9
EV/EBITDA (x)	19.8	16.2	13.2
Div Yield (%)	2.8	3.2	4.1

Shareholding pattern (%)

As On	Mar-25	Dec-24	Mar-24
Promoter	35.0	35.0	35.1
DII	32.3	30.9	29.7
FII	23.0	24.2	24.2
Others	9.8	9.9	11.1

FII Includes depository receipts

CMP: INR1,608

TP: INR2,000 (+24%)

Buy

A step in the right direction

Telecom stabilizes, margin performance on track

- Tech Mahindra (TECHM) reported 1QFY26 revenue of USD1.6b, down 1.4% QoQ in constant currency (CC) vs. our estimate of 1.0% cc decline. Communications/Manufacturing grew 2.8%/4.0% QoQ. BFS/Retail were down 0.6%/1.0% QoQ. EBIT margin was up 60bp QoQ at 11.1%, beating our estimate of 10.7%. PAT stood at INR11.4b (down 2.2% QoQ/up 33% YoY), below our estimate of INR12b. In INR terms, revenue/EBIT/PAT grew 2.7%/34.0%/34.0% YoY. In 2QFY26, we expect revenue/EBIT/PAT to grow by 3.9%/31.0%/9.1% YoY. We reiterate BUY on TECHM with a TP of INR2,000 (implying 24% upside), based on 25x FY27E EPS.

Our view: On track despite few headwinds

- Revenue miss; communications now net positive** - TechM's 1QFY26 revenue missed estimates due to continued weakness in manufacturing and client-specific issue in Hi-tech. However, the Communications segment, which was a key overhang, is now net positive and should support revenue momentum going forward. Management highlighted BFSI and Communications as the key growth drivers, while Manufacturing is likely to remain under pressure. Our estimates factor in 1.0%/6.5% organic CC growth for FY26/FY27.
- Continuous margin expansion; guidance reiterated**: Margins improved sequentially to 11.1% in 1QFY26, aided by better operational leverage and cost actions, which helped to offset the impact of visa costs and Comviva seasonality. The company reiterated its FY27 EBIT margin aspiration of 15%. Management has a clear plan in place, but we believe that if growth does not return in FY27, there could be some downside risk to margin estimates. That said, we retain our margin assumptions at 14.4%, allowing for some miss to management plans.
- Deal TCV growth best among peers**: TechM continued to deliver decent deal TCV performance with deal TCV at USD809m, up 51% YoY. The growth was supported by better pricing, not taking a hit on margins. Large deals will complete the transition in 2Q and start contributing to revenue.
- Transformation on track**: Healthy deal TCV, stability in the Communications vertical, continuous margin expansion, and the reiteration of guidance point to management's execution in the right direction. While the FY26 margin expansion plan appears achievable even without a major industry recovery, hitting the 15% target in FY27 will likely require growth to return. That said, management has laid out a clear and credible plan—and our base case assumes it will deliver closer to its intended margin plan.

Valuation and change in estimates

- We keep our estimates unchanged, reflecting steady directional progress. We estimate FY26/FY27 EBIT margins at 12.3%/14.4%, which will result in a 28% CAGR in INR PAT over FY25-27. The ongoing restructuring under the new leadership is tracking well, and this quarter was another step in the right direction. We continue to like TECHM's bottom-up turnaround story. We value TECHM at 25x FY27E EPS with a TP of INR2,000 (24% upside). We reiterate our Buy rating on the stock.

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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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Miss on revenue, beat on margins; healthy deal TCV growth

- Revenue stood at USD1.6b, down 1.4% CC (up 1.0 QoQ % in USD terms) vs. our estimate of 1.0% QoQ CC decline.
- IT service/BPO were up 0.7%/2.9% QoQ. Americas and Europe grew 2.6%/3.6% QoQ.
- Communications/Manufacturing grew 2.8%/4.0% QoQ. BFS/Retail were down 0.6%/1.0% QoQ.
- EBIT margin was up 60bp QoQ at 11.1%, beating our estimates of 10.7%.
- Net employee addition was flat QoQ/YoY. Utilization (ex. trainees) was down 130bp QoQ at 85.0%. LTM attrition was up by 80bp at 12.6%.
- Net new deal TCV was USD809m, up 1.3% QoQ/51% YoY.
- Adj. PAT stood at INR11.4b (down 2.2% QoQ/up 33% YoY), below our estimate of INR12b.
- FCF conversion to PAT stood at 65% vs. 111% in 4QFY25.

Key highlights from the management commentary

- The environment remains dynamic and uncertain.
- TECHM has seen slowdown in Manufacturing, with cutbacks in discretionary spending. Telecom has stabilized.
- Management expects FY27 growth to exceed peer-group average. Management maintains that FY26 will be better than FY25.
- Large deals from 2Q are expected to complete transition and begin contributing to revenue, assuming stable conditions.
- Deal win momentum remains strong, supporting growth visibility for the next quarter.
- Management remains confident about achieving FY27 EBIT margin guidance.
- **BFSI:** Differentiation in asset management and payments. Strong capabilities in Guidewire and Temenos.
- **Telcos: In the Americas region, spending has stabilized, and growth is expected to return.**

Valuation and view

We remain positive about the restructuring at TECHM under the new leadership. But we expect the impact from these steps to be visible gradually. With the Communications vertical turning net positive, continued strength in BFSI, and improving operational efficiency, we see room for continued margin improvement ahead. **We value TECHM at 25x FY27E EPS with a TP of INR2,000 (24% upside). We reiterate our BUY rating on the stock.**

Quarterly performance

Y/E March									(INR b)			
	FY25				FY26E				FY25	FY26E	Est. 1QFY26	Var. (%) / bp
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Revenue (USD m)	1,559	1,589	1,567	1,549	1,564	1,595	1,619	1,652	6,264	6,430	1,557	0.4
QoQ (%)	0.7	1.9	-1.4	-1.1	1.0	2.0	1.5	2.0	-0.2	2.7	0.5	45bp
Revenue (INR b)	130	133	133	134	134	138	140	143	530	556	133	0.2
YoY (%)	-1.2	3.5	1.4	4.0	2.7	3.9	5.7	7.0	1.9	4.8	2.4	23bp
GPM (%)	26.5	27.9	28.8	29.2	28.7	29.5	30.0	28.5	28.1	29.2	28.8	-13bp
SGA (%)	14.5	14.8	15.2	15.2	14.2	14.0	13.8	13.0	14.9	13.7	14.6	-43bp
EBITDA	16	18	18	19	19	21	23	22	70	86	19	2.3
EBITDA Margin (%)	12.0	13.1	13.6	14.0	14.5	15.5	16.2	15.5	13.2	15.4	14.2	29bp
EBIT	11	13	14	14	15	17	19	18	51	68	14	3.6
EBIT Margin (%)	8.5	9.6	10.2	10.5	11.1	12.2	13.2	12.5	9.7	12.3	10.7	36bp
Other income	1	4	-1	1	1	1	1	1	5	5	1	31.8
ETR (%)	26.7	26.6	23.9	22.0	30.2	24.5	24.5	24.5	24.8	25.8	24.5	575bp
Adj. PAT	9	13	10	12	11	14	15	14	43	54	12	-1.9
QoQ (%)	-12.2	46.8	-21.4	18.7	-2.2	19.6	9.3	-3.1			-0.3	-189bp
YoY (%)	-10.9	27.8	36.8	20.3	34.0	9.1	51.6	23.8	17.4	27.9	36.5	-260bp
Extraordinary Item	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Reported PAT	9	13	10	12	11	14	15	14	43	54	12	-1.9
EPS (INR)	9.6	14.1	11.1	13.2	12.9	15.4	16.8	16.3	47.9	61.3	13.1	-1.9

Key performance indicators

Y/E March	FY25				FY26		FY25
	1Q	2Q	3Q	4Q	1Q		
Revenue (QoQ CC %)	0.7	0.7	1.2	-1.5		-1.4	
Margins (%)							
Gross Margin	26.5	27.9	28.8	29.2	28.7	28.1	
EBITDA margin	12.0	13.1	13.6	14.0	14.5	13.2	
EBIT Margin	8.5	9.6	10.2	10.5	11.1	9.7	
Net Margin	6.5	9.4	7.4	8.7	8.5	8.0	
Operating Metrics							
Headcount (k)	148	154	150	149	149	149	
Util excl. trainees (%)	86.0	86.0	86.0	86.0	85.0	86.0	
Attrition (%)	10.0	10.6	11.2	11.8	12.6	11.8	
Deal TCV (USD m)	534	603	745	798	809	2,680	
Key Verticals (QoQ %)							
Communication	-2.0	2.8	-4.0	1.0	2.8	-6.5	
Enterprise	2.1	1.4	0.0	-2.2	0.1	3.2	
Key Geographies (QoQ%)							
North America	3.9	-0.6	-1.9	-5.8	2.6	-2.5	
Europe	-2.6	4.5	-3.0	6.4	3.4	0.0	

Highlights from the management commentary

Demand and industry outlook

- The environment remains dynamic and uncertain.
- A mixed outlook: Seen slowdown in manufacturing, with cutbacks in discretionary spending. Weakness in Hi-Tech due to client-specific issues, particularly among semiconductor clients. Telecom has stabilized.
- Management expects FY27 growth to exceed peer-group average. BFSI, Telecom, and Retail verticals are key watch areas.
- Revenue stood at USD1.6b, down 1.4% in CC, though up 1.0% QoQ in USD terms. Headwinds included rightsizing of the Field Services business and spending reductions in Automotive.

- Management maintains that FY26 will be better than FY25.
- Three key drivers working in the company's favor: **1) Focus on largest clients:** The Turbocharge program is yielding growth faster than the company average and still has headroom for expansion. **2) Expansion into must-have accounts:** 15 new Fortune 500 clients were added this quarter. **3) Focus on profitable large deals:** Emphasis on margin-accretive engagements.
- Net new deal TCV was USD809mn, up 1.3% QoQ and 51% YoY. Large deal win rates have improved.
- Large deals from 2Q are expected to complete transition and begin contributing to revenue, assuming stable conditions.
- Management continues to be prudent on pricing in large deals.
- **BFSI:** Continues to be the fastest-growing vertical. Confident in long-term potential across geographies. Differentiation in asset management and payments. Strong capabilities in Guidewire and Temenos.
- **Hi-Tech:** Ongoing restructuring in the semiconductor industry led to steep budget cuts and workforce rationalization at a key client. Gradual recovery anticipated by 2HFY26.
- **Manufacturing:** Discretionary spending in the automotive segment remains soft. US auto exposure is higher than Europe exposure, while European exposure is primarily via Pininfarina, partially shielding the company from tariffs. Aerospace has seen some ramp-up, helping to offset the auto downturn. The company is more exposed to OEMs than to Tier-1 vendors.
- **Retail:** Management is encouraged by progress in the Americas, including a deal win with a major US retailer.
- **Telco:** Spending has stabilized among the top clients. Volatility in India and MEA has settled, with a new leadership in place. In Europe, the deal pipeline is strong, driven by consolidation opportunities. Comviva has had a breakthrough in Europe in both software and services. The company is leveraging its integrated capabilities across IT, network, and Comviva suite.
- Aims to win with digital platforms, API monetization, and vertical-specific services to generate adjacent revenues.
- **BPO:** There was some seasonality and it expects ramp-ups, hence headcount increased. 2Q will see a BPS deal bringing in revenue, the renewal of which was delayed last quarter.
- **Americas:** Growth was driven by Telecom and Communications. Manufacturing softness affected overall performance.

Margin performance

- EBIT margin came in at 11.1%, up 60bp QoQ.
- Margin headwinds included seasonality in Comviva, higher visa costs, and lower utilization. These were offset by benefits from Project Fortius and operational leverage.
- Tax rate for FY26 is expected to remain around 27%.
- Margin levers ahead include: reducing sub-contracting costs, increasing offshoring in fixed-price contracts, and improving execution and governance.
- Lower utilization is partly due to training of talent for deployment. Some increase in subcontractor costs may occur, but should be lower YoY.
- Support costs have been rationalized with centralized structures.

- Other expenses include partial seasonality. Some normalization is expected going forward.
- FCF was lower due to seasonality and an increase in DSO (due to timing delays); normalization is expected in subsequent quarters.
- Management remains confident about achieving FY27 EBIT margin guidance.

Exhibit 1: Communication grew QoQ and on path to recovery

Verticals	Contribution to revenue (%)	Growth (QoQ %)
Comm., Media, and Ent.	33.8	2.8
Manufacturing	17.5	3.9
Technology	13.3	1.7
BFSI	16.4	-0.8
Retail, Transport, and Logistics	7.9	-1.5
Others	11.1	-5.0

Exhibit 2: Americas and Europe both showed growth

Geographies	Contribution to revenue (%)	Growth (QoQ %)
Americas	49.2	2.6
Europe	26.0	3.4
Rest of the World	24.8	-4.4

Valuation and view

We remain positive about the restructuring at TECHM under the new leadership. But we expect the impact from these steps to be visible gradually. With the Communications segment turning net positive, continued strength in BFSI, and improving operational efficiency, we see room for continued margin improvement ahead. **We value TECHM at 25x FY27E EPS with a TP of INR2,000 (24% upside). We reiterate our BUY rating on the stock.**

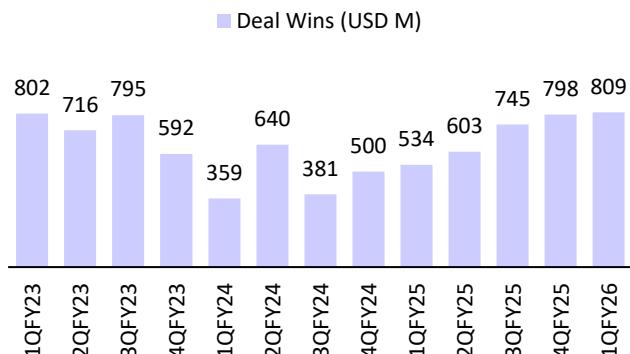
Exhibit 3: Changes to our estimates

	Revised		Earlier		Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
INR/USD	86.4	86.7	86.4	86.7	-0.1%	0.0%
USD Revenue (m)	6,430	6,850	6,413	6,835	0.3%	0.2%
Growth (%)	2.7	6.5	2.4	6.6	30bps	-10bps
EBIT margin (%)	12.3	14.4	12.2	14.4	10bps	0bps
PAT (INR b)	54	69	55	69	-0.2%	0.2%
EPS	61.3	78.3	61.4	78.1	-0.2%	0.2%

Source: MOFSL, Company

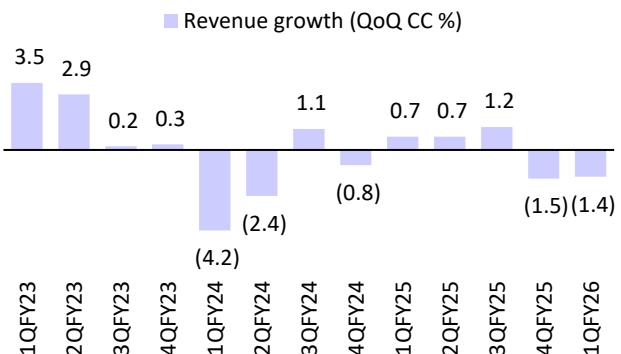
Story in charts

Exhibit 4: Net new deals continue to grow, up 51% YoY



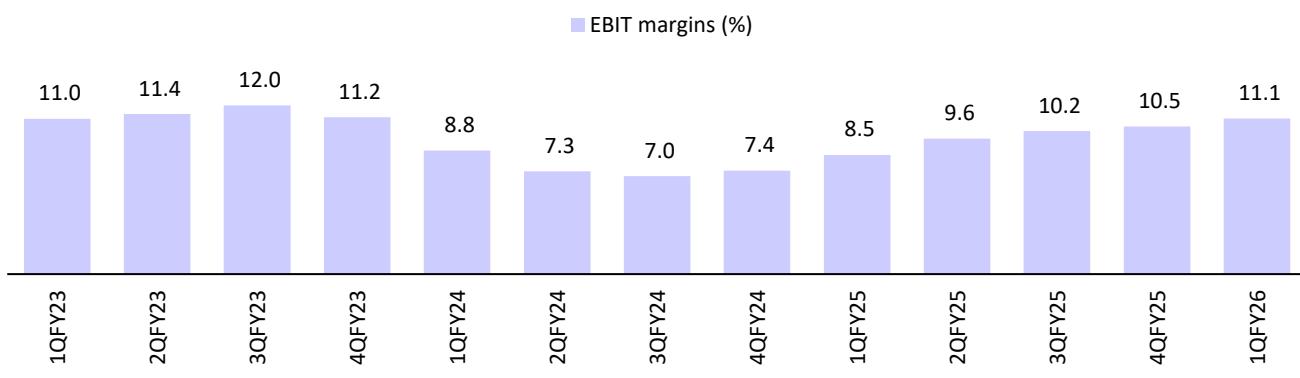
Source: Company, MOFSL

Exhibit 5: Automotive dragged 1Q performance



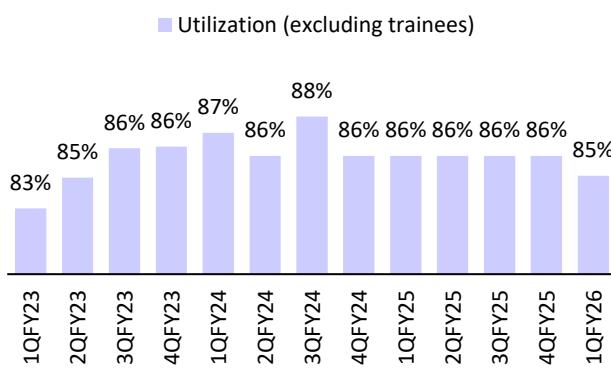
Source: Company, MOFSL

Exhibit 6: TECHM remains on track for margin guidance, delivers yet another quarter of margin expansion



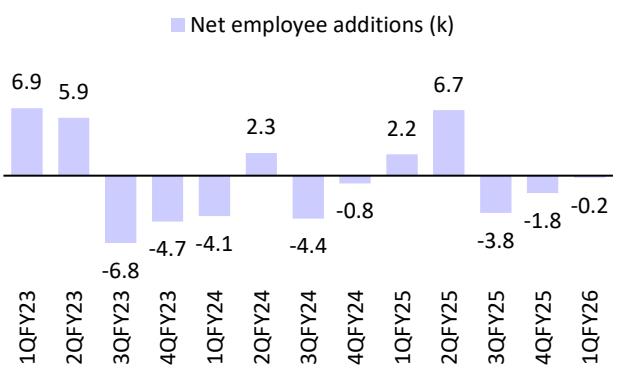
Source: Company, MOFSL

Exhibit 7: Utilization dropped ~100bp



Source: Company, MOFSL

Exhibit 8: Net headcount addition remains flat



Source: Company, MOFSL

Exhibit 9: Operating metrics

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26
Revenue by Geography (%)									
Americas	51.4	53.3	51.9	50.8	52.4	51.1	50.8	48.4	49.2
Europe	24.6	23.6	23.8	24.2	23.4	24.0	23.6	25.4	26.0
Rest of World	24.0	23.2	24.3	25.0	24.2	24.9	25.6	26.2	24.8
Vertical Split (%)									
Telecom	35.8	34.7	36.5	34.0	33.1	33.4	32.5	33.2	33.8
Manufacturing	16.7	17.5	18.1	18.0	18.3	17.2	16.8	17.0	17.5
Tech Media Entertainment	13.9	14.3	10.5	13.8	13.8	14.3	14.3	13.2	13.3
BFSI	15.5	15.4	15.5	15.7	15.7	15.8	16.1	16.7	16.4
Retail Transport Logistics	7.1	7.7	8.6	7.3	7.7	7.9	8.1	8.1	7.9
Others	11.0	10.4	10.8	11.2	11.4	11.4	12.2	11.8	11.1
Client Metrics									
No. of active clients	1,255	1252	1228	1172	1165	1178	1175	1162	NA*
% of repeat business	98.0	96	95	94	94	94	95	95	NA*
No. of Million \$ clients									
USD1m+	580	568	558	553	545	545	540	540	529
USD5m+	190	186	185	190	191	195	191	195	193
USD10m+	115	114	118	114	113	109	104	106	108
USD20m+	62	61	63	63	61	61	61	59	60
USD50m+	26	26	26	23	24	25	25	25	26
Client concentration (%)									
Top 5 Clients	17.0	17	16	16	15	15	15	16	16
Top 6-10	9.9	10.5	10.2	10.0	10.0	10.0	9.0	9.0	9.2
Top 11-20	12.0	12.4	12.4	13.0	13.0	14.0	14.0	13.7	13.8
Headcount									
Software professionals	81,521	81,200	81,705	80,925	80,417	80,618	80,865	80,609	79,987
BPO	58,079	60,985	56,206	55,492	58,177	64,940	61,053	59,636	60,278
Sales and support	8,697	8,419	8,339	9,038	9,026	8,715	8,570	8,486	8,252
Total	1,48,297	1,50,604	1,46,250	1,45,455	1,47,620	1,54,273	1,50,488	1,48,731	1,48,517
IT Attrition (LTM %)	13	11	10	10	10	11	11	12	13
IT Utilization (%)	87	86	88	86	86	86	86	86	85
IT Utilization (excl. trainees)	87	86	88	86	86	86	86	86	85
DSO - incl. unbilled	98	97	91	92	93	94	88	88	95
Borrowings (USD m)	185.0	187	181	184	127	116	109	55	29
Cash and Cash Equivalent (USD m)	939.0	784	843	949	966	784	799	896	941
Capital Expenditure (USD m)	25.0	26	21	24	13	16	20	20	NA*

*Note: Company has discontinued reporting Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Sales	369	379	446	533	520	530	556	594
Change (%)	6.1	2.7	17.9	19.4	-2.4	1.9	4.8	6.9
COGS	260	259	310	381	391	381	393	413
Gross Profit	109	120	137	152	129	149	162	181
SGA expenses	52	52	57	71	71	79	76	76
EBITDA	57	68	80	80	58	70	86	105
% of Net Sales	15.5	18.1	18.0	15.1	11.1	13.2	15.4	17.7
Depreciation	14	15	15	20	18	19	18	20
EBIT	43	54	65	61	40	51	68	86
% of Net Sales	11.6	14.2	14.6	11.4	7.6	9.7	12.3	14.4
Other Income	10	6	10	6	5	5	5	6
PBT	53	60	75	67	45	56	73	92
Tax	12	15	18	16	8	14	19	22
Rate (%)	22.0	25.3	24.4	23.7	18.5	24.8	25.8	24.5
Minority interest	-1	-1	1	1	0	0	0	0
Share from associates	0	0	0	0	0	0	0	0
Extraordinary Items (EO)	-2	-1	0	-2	-13	0	0	0
Adjusted PAT	43	46	56	51	36	43	54	69
Change (%)	-1.1	7.2	22.1	-8.9	-28.5	17.4	27.9	27.7
Balance Sheet								(INR b)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Share Capital	4	4	4	4	4	4	4	4
Reserves	214	244	264	275	262	268	277	287
Net Worth	218	249	269	279	267	273	282	292
Minority Interest	4	4	5	5	5	5	4	4
Loans	24	17	16	16	15	15	5	5
Other LT liabilities	28	28	36	31	23	23	29	30
Amount pending invest.	12	12	12	12	12	12	12	12
Capital Employed	287	309	338	343	322	329	332	343
Assets	89	91	149	149	139	140	140	139
Investments	2	6	4	6	5	3	3	3
Other non-current assets	50	47	50	62	56	66	69	74
Curr. Assets	232	253	245	244	234	237	246	260
Debtors	76	65	75	81	71	65	69	75
Cash & Bank Balance	30	27	38	41	43	43	40	40
Investments	57	98	46	30	32	31	46	61
Other Current Assets	68	63	86	93	88	97	91	85
Current Liab. & Prov	87	88	111	119	112	122	126	133
Net Current Assets	145	165	134	126	122	115	120	128
Application of Funds	287	309	338	343	322	323	332	343

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Basic (INR)								
EPS	48.7	52.1	63.4	57.6	41.0	48.0	61.4	78.4
Diluted EPS	48.3	51.7	62.9	57.3	40.9	47.9	61.3	78.3
Cash EPS	62.3	66.7	80.0	76.7	47.2	68.8	81.2	100.4
Book Value	249.9	284.4	306.0	317.1	302.1	309.0	317.6	329.2
DPS	15.0	45.0	45.0	50.0	40.0	45.0	52.1	66.6
Payout (%)	31.0	87.1	71.6	87.3	97.7	93.9	85.0	85.0
Valuation (x)								
P/E ratio	33.0	30.8	25.4	27.9	39.2	33.5	26.2	20.5
Cash P/E ratio	25.8	24.1	20.1	21.0	34.1	23.4	19.8	16.0
EV/EBITDA ratio	24.4	20.4	17.3	17.3	24.1	19.8	16.2	13.2
EV/Sales ratio	3.8	3.7	3.1	2.6	2.7	2.6	2.5	2.3
Price/Book Value	6.4	5.7	5.3	5.1	5.3	5.2	5.1	4.9
Dividend Yield (%)	0.9	2.8	2.8	3.1	2.5	2.8	3.2	4.1
Profitability Ratios (%)								
RoE	20.2	19.5	21.5	18.5	13.3	15.7	19.6	24.2
RoCE	17.3	19.3	21.0	18.6	12.4	16.4	21.1	25.8
Turnover Ratios								
Debtors (Days)	75	62	61	56	50	45	45	46
Fixed Asset Turnover (x)	4.1	4.1	3.0	3.6	3.7	3.8	4.0	4.3
Leverage Ratio								
Debt/Equity Ratio (x)	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0

Cash Flow Statement

(INR b)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
CF from Operations								
CF from Operations	49	65	67	74	51	61	72	89
Change in Working Capital	-5	16	-14	-18	13	-3	4	4
Net Operating CF	44	81	53	56	64	58	76	92
Net Purchase of FA	-8	-6	-8	-10	-7	-5	-18	-19
Free Cash Flow	35	75	45	46	56	53	58	73
Net Purchase of Invest.	19	-49	13	7	-6	5	-15	-15
Net Cash from Invest.	10	-55	5	-3	-13	0	-33	-34
Inc./Dec.) in Equity	0	1	1	0	0	0	0	0
Proceeds from LTB/STB	-20	-13	-8	-9	-9	-20	0	0
Dividend Payments	-25	-18	-40	-43	-39	-38	-46	-59
Cash Flow from Fin.	-45	-30	-47	-51	-48	-58	-46	-59
Other adjustments	1	0	0	1	0	0	0	0
Net Cash Flow	10	-3	11	3	3	0	-3	-1
Opening Cash Balance	20	30	27	38	41	43	43	40
Add: Net Cash	10	-3	11	3	3	0	-3	-1
Closing Cash Balance	30	27	38	41	43	43	40	40

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
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