

Estimate change

TP change

Rating change



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Bloomberg	INMART IN
Equity Shares (m)	29
M.Cap.(INRb)/(USDb)	220.3 / 3
52-Week Range (INR)	9952 / 2264
1, 6, 12 Rel. Per (%)	0/-17/157
12M Avg Val (INR M)	1056

## Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	6.7	8.0	9.8
EBITDA	3.3	3.7	4.0
PAT	2.9	3.6	3.9
EPS (INR)	96.6	119.5	129.9
EPS Gr. (%)	86.5	23.7	8.7
BV/Sh. (INR)	556.2	635.8	750.7

## Ratios

RoE (%)	30.8	20.5	18.7
RoCE (%)	31.3	20.8	18.9
Payout (%)	16.0	12.6	11.6

## Valuations

P/E (x)	74.7	60.4	55.6
P/BV (x)	13.0	11.4	9.6

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	49.8	49.9	52.3
DII	4.7	4.5	3.8
FII	26.8	27.7	15.3
Others	18.6	17.9	28.6

FII Includes depository receipts

**CMP: INR7,251**
**TP: INR8,610 (+19%)**
**Buy**

## Blip on collections; expect faster recovery

### Long-term outlook intact; maintain Buy

- IndiaMART delivered in-line revenue performance in 1QFY22. The number of paid suppliers fell by 6k, impacted by lockdowns amid the second COVID wave. On the other hand, ARPU surged 5.8% QoQ on higher churn in low-paying silver monthly suppliers. The decline in collections was restricted to 38% QoQ v/s a 53% QoQ drop in 1QFY21. The sharp rebound in FY21 collections (post the drop in 1QFY21) reassures us of a quick rebound in collections over the next two quarters despite the second COVID wave impact on 1QFY22.
  - Margins remained resilient, with the EBIT margin at 47% (v/s our estimate of 45.1%). Sequentially, margins increased 140bps on higher ARPU and lower variable payouts to sales employees due to a drop in collections. The company reduced its outsourcing of sales executives significantly; channel sales partners are now acting as partial substitutes for those involved in acquiring new accounts.
  - We expect some moderation in net additions for FY22 from the company's long-term guidance – given the pressures from the regional lockdowns in India. That said, paid supplier additions should remain modest (+12k for FY22E). However, we expect a higher momentum for paid suppliers in FY23 on economic recovery, which should drive a 21% revenue CAGR over FY21–23E.
  - While we concur that margins at current levels are unsustainable, IndiaMART should see a structural shift in operations from pre-COVID levels. Half of the savings, led by cost optimization, would continue to flow through on account of 1) permanent optimization in G&A, 2) sales through channel partners rendering costs variable (and leading to a reduction in total employees), 3) higher productivity benefits, and 4) a reduction in travel expenses (achieved by shifting some face-to-face meetings onto video conferencing).
  - We increase our FY22E/FY23E EPS estimate by 6%/2%, factoring in the operational beat during the quarter. We also increase our margin estimates as we bake in resilience for a longer period than earlier expected.
  - We value IndiaMART on a DCF basis at INR8,610 (+19% upside), assuming 11% WACC and a 5% terminal growth rate, implying 66x FY23E EPS.
- Reiterate Buy.**

### Operations above estimates; collections down 38% sequentially

- Revenue stood at INR1.8b, in line with our estimates (+18.6% YoY and +1.1% QoQ).
- Total collections fell 38% sequentially to INR1.7b, led by the impact of the second COVID wave on the business. On a YoY basis, collections are up 78%.
- EBIT margins edged up 140bp sequentially to 47%, above our estimate of 45.1%. The margin increase was largely led by (1) lower variable payouts to sales employees on muted collections and (2) an ARPU increase owing to higher churn in low-paying monthly suppliers.

Anmol Garg – Research analyst (Anmol.Garg@MotilalOswal.com)

Research analyst: Mukul Garg (Mukul.Garg@MotilalOswal.com) / Heenal Gada (Heenal.Gada@MotilalOswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

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- The traffic on the platform was organic in nature; therefore, the company did not incur any advertisement expenses.
- PAT was up 18.6% YoY to INR879m, a 12% beat on our estimates. The beat was led by higher operating income, lower ETR (21.2% v/s est. 24.6%), and higher other income (INR294m v/s est. INR248m).
- IndiaMART registered traffic growth of 40% YoY and 4% QoQ to 268m in 1QFY22.
- The total suppliers on the platform stood at 6.6m, an increase of 8% YoY.
- The total paid suppliers stood at 146k (est. 148k), an increase of 10% YoY and decline of 4% QoQ. ARPU increased 9.4% YoY to INR49.7k (above est. 48.6k).
- Total cash and investments stood at INR24.2b.
- OCF stood at INR610m, implying OCF/PAT of 70%. 1QFY21 OCF was just INR30m.

#### Highlights from management commentary

- The company is currently enabling business and discovery for MSMEs, wherein it aids with (1) buyer and supplier negotiations and (2) quotations and invoicing. Going ahead, it plans to further expand into the commerce side of the business, including (1) payments, (2) logistics/tracking, and (3) transactional financing.
- Realization increased 6% QoQ, largely led by higher churn in low-paying monthly suppliers. The company did not witness any price increase during the quarter. Other customer tranches have not seen any meaningful decline.
- The management has refrained from hiring on two counts: 1) the use of channel sales partners and 2) an increase in the productivity of existing employees on account of work-from-home. Channel sales partners would be used majorly for client acquisitions, while mining/servicing would be driven by its own sales employees.

#### Valuation and view

- Apart from collections and revenue growth, IndiaMART has shown higher resilience on the margin front. While we concur that margins at current levels are unsustainable, it would see positive benefits from cost optimization and operating leverage in the long term.
- We remain confident of strong fundamental growth in operations, led by a) higher growth in digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) over 70% market share in the underlying industry, e) the ability to increase ARPU on low price sensitivity, and f) high operating leverage.
- We arrived at our DCF-based Target Price of INR8,610 per share, assuming 11% WACC and a 5% terminal growth rate. Our TP implies an upside of 19%.

**Reiterate Buy.**

## Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY21				FY22E				FY21	FY22E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(% / bp)
<b>Gross Sales</b>	<b>1,531</b>	<b>1,632</b>	<b>1,736</b>	<b>1,797</b>	<b>1,816</b>	<b>1,935</b>	<b>2,076</b>	<b>2,186</b>	<b>6,696</b>	<b>8,013</b>	<b>1,795</b>	<b>1.2</b>
YoY Change (%)	4.1	4.2	5.3	5.6	18.6	18.6	19.6	21.6	4.9	19.7	17.3	140bp
<b>Total Expenditure</b>	<b>798</b>	<b>815</b>	<b>858</b>	<b>943</b>	<b>930</b>	<b>1,030</b>	<b>1,115</b>	<b>1,212</b>	<b>3,414</b>	<b>4,287</b>	<b>950</b>	<b>-2</b>
<b>EBITDA</b>	<b>733</b>	<b>817</b>	<b>878</b>	<b>854</b>	<b>886</b>	<b>905</b>	<b>961</b>	<b>974</b>	<b>3,282</b>	<b>3,726</b>	<b>845</b>	<b>5</b>
Margins (%)	47.9	50.1	50.6	47.5	48.8	46.8	46.3	44.6	49.0	46.5	47.1	170bp
Depreciation	44	44	38	35	32	34	37	39	161	141	35	-8
Interest	18	18	16	15	14	14	14	14	67	56	15	-7
Other Income	337	179	246	104	294	309	324	337	866	1,264	248	19
<b>PBT before EO expense</b>	<b>1,008</b>	<b>934</b>	<b>1,070</b>	<b>908</b>	<b>1,134</b>	<b>1,166</b>	<b>1,234</b>	<b>1,259</b>	<b>3,920</b>	<b>4,793</b>	<b>1,043</b>	<b>9</b>
Extra-Ord expense	0	0	0	109	0	0	0	0	109	0	0	
<b>PBT</b>	<b>1,008</b>	<b>934</b>	<b>1,070</b>	<b>799</b>	<b>1,134</b>	<b>1,166</b>	<b>1,234</b>	<b>1,259</b>	<b>3,811</b>	<b>4,793</b>	<b>1,043</b>	<b>9</b>
Tax	263	234	263	226	240	291	309	315	986	1,155	256	-6
Rate (%)	26.1	25.1	24.6	28.3	21.2	25.0	25.0	25.0	25.9	24.1	24.6	-340bp
MI & Profit/Loss of Asso. Cos.	4	2	5	16	15	0	0	0	27	15	0	
<b>Reported PAT</b>	<b>741</b>	<b>698</b>	<b>802</b>	<b>557</b>	<b>879</b>	<b>874</b>	<b>926</b>	<b>944</b>	<b>2,798</b>	<b>3,623</b>	<b>787</b>	<b>12</b>
<b>Adj PAT</b>	<b>741</b>	<b>698</b>	<b>802</b>	<b>666</b>	<b>879</b>	<b>874</b>	<b>926</b>	<b>944</b>	<b>2,907</b>	<b>3,623</b>	<b>787</b>	<b>12</b>
YoY Change (%)	131.6	684.3	105.1	50.3	18.6	25.3	15.4	41.7	133.9	24.6	6.1	1250bp
Margins (%)	48.4	42.8	46.2	37.1	48.4	45.2	44.6	43.2	43.4	45.2	43.8	460bp

## Key Perfor. Indicators

Y/E March	FY21				FY22E				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Revenue Indicators</b>										
Paid Suppliers ('000)	133.0	141.0	148.0	152.0	146.0	153.0	159.0	164.0	574	622
ARPU ('000)	45.5	45.8	46.7	47.0	49.7	50.7	52.2	53.3	44	49
<b>Cost Indicators</b>										
Employees	3150	2917	2826	2745	2982	3102	3302	3352	2745	3352
Outsourcing Sales Employees	1315	1000	874	731	731	756	781	806	731	806
Other Expenses ( INR M)	198	196	211	223	250	271	311	393	828	1226

## Highlights from management commentary

## ARPU

- Realization increased 6% QoQ, largely led by higher churn in low-paying monthly suppliers. The company did not witness any price increase during the quarter. Other customer tranches have not seen any meaningful decline.
- The company does not plan to launch differential pricing contracts as of yet, due to muted economic activity among suppliers.

## Hiring

- Overall hiring levels have gone up after several quarters as the company was able to recruit people at campus interviews, which have now commenced.
- IndiaMART has been reducing the outsourcing of sales employees and moving towards channel sales and sales through its own employees.

## Strategy

- The company is currently enabling business and discovery for MSMEs, wherein it aids with (1) buyer and supplier negotiations and (2) quotations and invoicing.
- Going ahead, it plans to further expand into the commerce side of the business, including (1) payments, (2) logistics/tracking, and (3) transactional financing.

- On the inorganic front, the company has done several SaaS-based investments, which would help scale the company's presence in MSME operations. It would undertake more SaaS-based acquisitions/investments and implement the vertical commerce model in the future.

### Channel partner sales

- IndiaMART has adopted the strategy to use channel partners in client acquisitions, along with its own salesforce.
- Channel partners are paid only if they convert a paid supplier, the cost of which is lower than the current customer acquisition cost for the company. The use of a partner-based ecosystem would make costs more variable.

### Data

- IndiMART is able to collect the behavior and usage data of buyers, which helps in better targeting buyers to the relevant MSMEs. This makes IndiaMART's relevancy far higher than any other platform.
- The company is able to create an enhanced buyer profile, ensuring better targeting as well as retargeting.

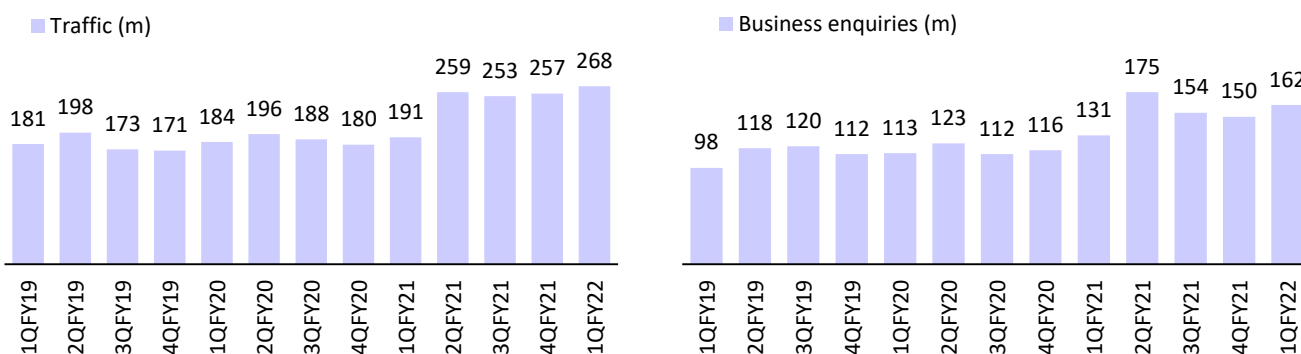
### Margins

- The management expects only half of the margin benefit from COVID to sustain. Sustainable margins are expected to be in the 40% range.
- Currently, the traffic on the platform is organic. However, going ahead, if targeting poses a concern, the management would not shy away from advertising.

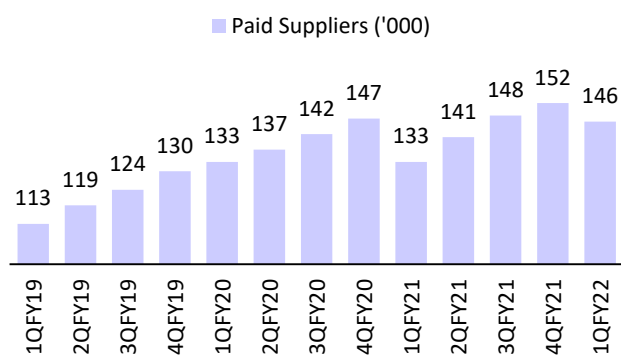
### Competition

- It is not seeing any increase in competitive intensity despite higher marketing and advertisement campaigns by the competition.
- IndiaMART would continue to work on gaining buyer and supplier traction to emerge as the market leader in this space.
- Buyer fulfilment is currently at ~40% on the portal (as per customer surveys). This has increased from 20% 3–4 years ago.

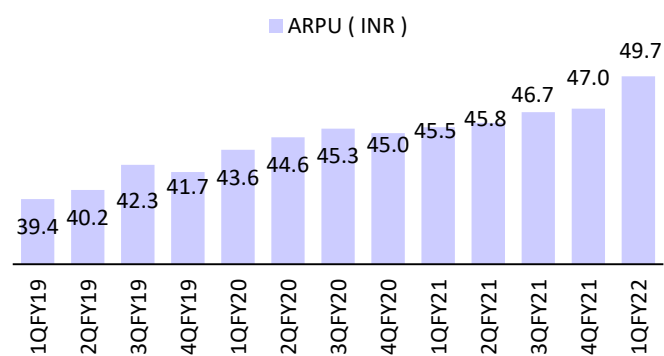
### Exhibit 1: Leading indicators are positive



Source: Company, MOFSL

**Exhibit 2: Dip in paid suppliers due to second COVID wave**

Source: Company, MOFSL

**Exhibit 3: ARPU increase on higher monthly supplier churn**

Source: Company, MOFSL

**Valuation and view**

- Apart from collections and revenue growth, IndiaMART has shown higher resilience on the margin front. While we concur that margins at current levels are unsustainable, it would see positive benefits from cost optimization and operating leverage in the long term.
- We remain confident of strong fundamental growth in operations, led by a) higher growth in digitization among SMEs (~25%), b) the need for out-of-the-circle buyers, c) a strong network effect, d) over 70% market share in the underlying industry, e) the ability to increase ARPU on low price sensitivity, and f) high operating leverage.
- We arrived at our DCF-based Target Price of INR8,610 per share, assuming 11% WACC and a 5% terminal growth rate. Our TP implies an upside of 19%.

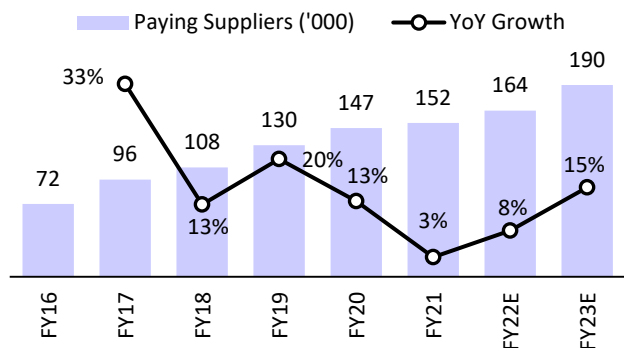
**Reiterate Buy.****Exhibit 4: Revisions to our estimates**

	Revised		Estimate		Change (% / bp)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
<b>Standalone business</b>						
Revenue (INR m)	8012.5	9793.7	7,921.1	9,743.7	1.2	0.5
YoY (%)	19.7	22.2	18.3	23.0	140bp	-80bp
EBITDA (%)	46.5	40.8	45.6	40.8	90bp	-10bp
EBIT (%)	44.7	39.0	43.6	38.9	110bp	10bp
EPS (INR)	119.5	129.9	112.9	126.2	5.8	2.9

Source: MOFSL

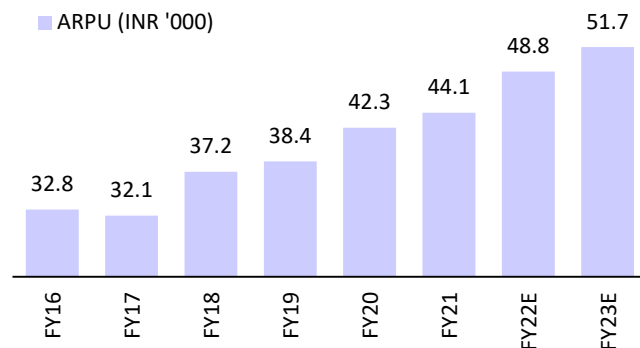
## Story in charts

**Exhibit 5: Expect 12% CAGR in paid suppliers over FY20–23E...**



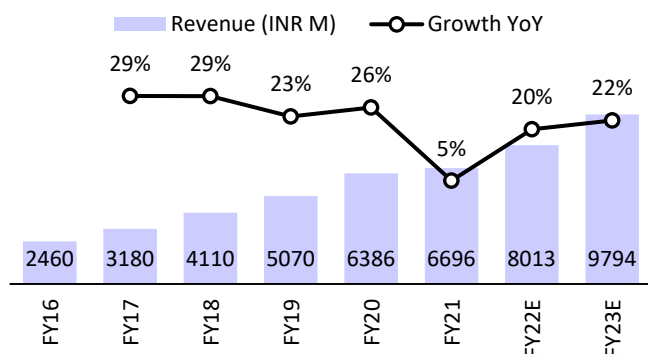
Source: Company, MOFSL

**Exhibit 6: ...with 8% ARPU increase...**



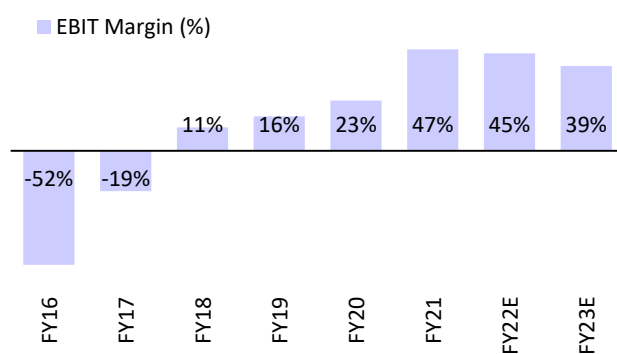
Source: Company, MOFSL

**Exhibit 7: ...resulting in 21% revenue CAGR**



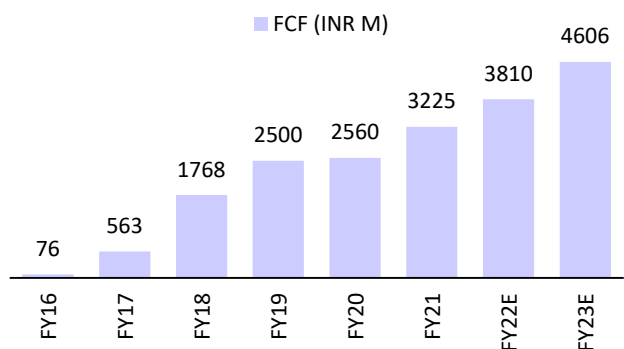
Source: Company, MOFSL

**Exhibit 8: Normalized EBIT to be significantly above FY20 levels**



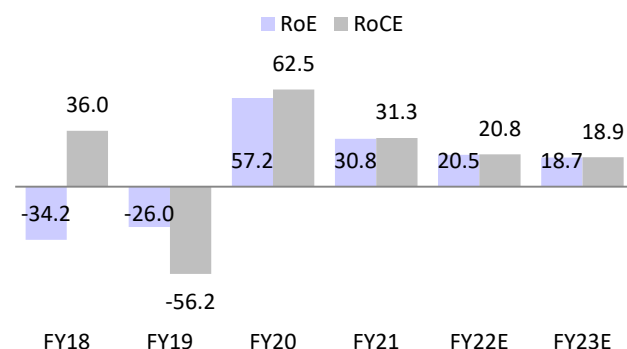
Source: Company, MOFSL

**Exhibit 9: Strong operations with negative working capital and lower capex to result in robust FCF**



Source: Company, MOFSL

**Exhibit 10: Return ratios remain strong**



Source: Company, MOFSL

## Financials and valuations

Consolidated - Income Statement						(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Total Income from Operations</b>	<b>4,110</b>	<b>5,070</b>	<b>6,386</b>	<b>6,696</b>	<b>8,013</b>	<b>9,794</b>
Change (%)	29.2	23.4	26.0	4.9	19.7	22.2
Employees Cost	1,950	2,290	2,670	2,052	2,498	3,318
Outsourced sales cost	440	570	724	534	563	722
Other Expenses	1,250	1,370	1,310	828	1,226	1,763
<b>Total Expenditure</b>	<b>3,640</b>	<b>4,230</b>	<b>4,704</b>	<b>3,414</b>	<b>4,287</b>	<b>5,802</b>
% of Sales	88.6	83.4	73.7	51.0	53.5	59.2
<b>EBITDA</b>	<b>470</b>	<b>840</b>	<b>1,682</b>	<b>3,282</b>	<b>3,726</b>	<b>3,991</b>
Margin (%)	11.4	16.6	26.3	49.0	46.5	40.8
Depreciation	30	40	207	161	141	173
<b>EBIT</b>	<b>440</b>	<b>800</b>	<b>1,475</b>	<b>3,121</b>	<b>3,585</b>	<b>3,819</b>
Int. and Finance Charges	1,230	650	29	67	56	56
Other Income	190	410	683	866	1,264	1,489
<b>PBT bef. EO Exp.</b>	<b>-600</b>	<b>560</b>	<b>2,129</b>	<b>3,920</b>	<b>4,793</b>	<b>5,251</b>
EO Items	0	0	229	-109	0	0
<b>PBT after EO Exp.</b>	<b>-600</b>	<b>560</b>	<b>2,358</b>	<b>3,811</b>	<b>4,793</b>	<b>5,251</b>
Total Tax	-1,150	350	872	986	1,155	1,313
Tax Rate (%)	191.7	62.5	37.0	25.9	24.1	25.0
Minority Interest	0.0	0.0	14.0	27.0	15.0	0.0
<b>Reported PAT</b>	<b>550</b>	<b>210</b>	<b>1,472</b>	<b>2,798</b>	<b>3,623</b>	<b>3,939</b>
<b>Adjusted PAT</b>	<b>550</b>	<b>210</b>	<b>1,243</b>	<b>2,907</b>	<b>3,623</b>	<b>3,939</b>
Change (%)	-185.7	-61.8	491.9	133.9	24.6	8.7
Margin (%)	13.4	4.1	19.5	43.4	45.2	40.2

Consolidated - Balance Sheet						(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	100	286	289	303	303	303
Eq. Share Warrants & App. Money	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0
Total Reserves	-3,312	1,313	2,462	15,806	18,974	22,458
<b>Net Worth</b>	<b>-3,213</b>	<b>1,599</b>	<b>2,751</b>	<b>16,109</b>	<b>19,277</b>	<b>22,761</b>
Other Liabilities	5,393	2,300	3,312	3,318	3,856	4,550
Total Loans	0	0	0	0	0	0
Deferred Tax Liabilities	-1,247	-964	-536	-244	-264	-284
<b>Capital Employed</b>	<b>933</b>	<b>2,935</b>	<b>5,527</b>	<b>19,183</b>	<b>22,869</b>	<b>27,027</b>
<b>Net Fixed Assets</b>	<b>73</b>	<b>85</b>	<b>52</b>	<b>22</b>	<b>42</b>	<b>62</b>
Goodwill on Consolidation	8	6	5	3	3	3
Capital WIP	2	2	2	2	2	2
Other Assets	345	44	1,514	1,054	1,054	1,054
<b>Total Investments</b>	<b>3,111</b>	<b>6,450</b>	<b>8,719</b>	<b>22,174</b>	<b>24,174</b>	<b>27,174</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>642</b>	<b>657</b>	<b>401</b>	<b>1,616</b>	<b>4,086</b>	<b>6,543</b>
Inventory	0	0	0	0	0	0
Account Receivables	7	6	17	13	22	27
Cash and Bank Balance	467	402	169	401	2,802	5,194
Loans and Advances	168	250	215	1,202	1,262	1,322
<b>Curr. Liability &amp; Prov.</b>	<b>3,247</b>	<b>4,308</b>	<b>5,166</b>	<b>5,688</b>	<b>6,477</b>	<b>7,796</b>
Account Payables	419	450	179	154	161	213
Other Current Liabilities	2,720	3,709	4,682	5,210	5,982	7,238
Provisions	107	149	305	324	334	344
<b>Net Current Assets</b>	<b>-2,604</b>	<b>-3,650</b>	<b>-4,765</b>	<b>-4,072</b>	<b>-2,391</b>	<b>-1,253</b>
Misc Expenditure	0	0	0	0	-15	-15
<b>Appl. of Funds</b>	<b>934</b>	<b>2,936</b>	<b>5,527</b>	<b>19,183</b>	<b>22,869</b>	<b>27,027</b>



## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>28.6</b>	<b>7.7</b>	<b>51.8</b>	<b>96.6</b>	<b>119.5</b>	<b>129.9</b>
Cash EPS	28.6	7.7	51.8	96.6	119.5	129.9
BV/Share	-167.1	58.6	96.8	556.2	635.8	750.7
DPS	0.0	0.0	10.1	15.4	15.0	15.0
Payout (%)	0.0	0.0	22.7	16.0	12.6	11.6
<b>Valuation (x)</b>						
P/E	252.4	937.7	139.4	74.7	60.4	55.6
Cash P/E	252.4	937.7	139.4	74.7	60.4	55.6
P/BV	-43.2	123.2	74.6	13.0	11.4	9.6
EV/Sales	33.7	38.8	32.1	31.2	27.0	21.8
EV/EBITDA	294.4	233.9	121.9	63.6	58.0	53.5
Dividend Yield (%)	0.0	0.0	0.1	0.2	0.2	0.2
FCF per share	92.0	91.7	90.1	111.4	120.3	145.6
<b>Return Ratios (%)</b>						
RoE	-34.2	-26.0	57.2	30.8	20.5	18.7
RoCE	36.0	-56.2	62.5	31.3	20.8	18.9
RoIC	30.5	-9.1	-25.5	-68.5	-72.5	-60.6
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	56.4	59.8	122.8	304.4	190.8	158.0
Asset Turnover (x)	4.4	1.7	1.2	0.3	0.4	0.4
Inventory (Days)	0	0	0	0	0	0
Debtor (Days)	1	0	1	1	1	1
Creditor (Days)	37	32	10	8	7	8
<b>Leverage Ratio (x)</b>						
Current Ratio	0.2	0.2	0.1	0.3	0.6	0.8
Interest Cover Ratio	0.4	1.2	50.9	46.6	64.0	68.2
Net Debt/Equity	1.1	-4.3	-3.2	-1.4	-1.4	-1.4

### Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	-601	539	2,114	3,893	4,793	5,251
Depreciation	29	41	211	161	141	173
Interest & Finance Charges	-28	-30	33	67	56	56
Direct Taxes Paid	-10	-52	-186	-588	-1,155	-1,313
(Inc)/Dec in WC	1,297	1,684	1,022	471	1,238	1,928
<b>CF from Operations</b>	<b>687</b>	<b>2,183</b>	<b>3,194</b>	<b>4,004</b>	<b>5,074</b>	<b>6,095</b>
Others	1,103	368	-589	-779	-1,264	-1,489
<b>CF from Operating incl EO</b>	<b>1,791</b>	<b>2,551</b>	<b>2,605</b>	<b>3,225</b>	<b>3,810</b>	<b>4,606</b>
(Inc)/Dec in FA	-22	-51	-45	2	-161	-193
<b>Free Cash Flow</b>	<b>1,769</b>	<b>2,500</b>	<b>2,560</b>	<b>3,227</b>	<b>3,648</b>	<b>4,414</b>
(Pur)/Sale of Investments	-1,586	-2,591	-2,047	-13,379	-2,000	-3,000
Others	-44	-116	-233	1	1,264	1,489
<b>CF from Investments</b>	<b>-1,653</b>	<b>-2,758</b>	<b>-2,325</b>	<b>-13,376</b>	<b>-897</b>	<b>-1,704</b>
Issue of Shares	152	144	19	10,520	0	0
Inc/(Dec) in Debt	0	0	0	0	0	0
Interest Paid	0	-3	-199	-122	-56	-56
Dividend Paid	0	0	-333	-15	-455	-455
Others	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>152</b>	<b>141</b>	<b>-513</b>	<b>10,383</b>	<b>-511</b>	<b>-511</b>
<b>Inc/Dec of Cash</b>	<b>291</b>	<b>-65</b>	<b>-233</b>	<b>232</b>	<b>2,402</b>	<b>2,392</b>
Opening Balance	177	467	402	169	401	2,802
<b>Closing Balance</b>	<b>467</b>	<b>402</b>	<b>169</b>	<b>401</b>	<b>2,802</b>	<b>5,194</b>



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

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