

Torrent Pharma

Estimate change



TP change



Rating change


CMP: INR2,635
TP: INR2,850 (+8%)
Neutral
India/Brazil outshine; decline in the US sales growth ceases
Operational cost savings underway; to aid margin improvement

Bloomberg	TRP IN
Equity Shares (m)	169
M.Cap.(INRb)/(USD\$b)	445.8 / 5.8
52-Week Range (INR)	3304 / 2485
1, 6, 12 Rel. Per (%)	2/-3/-9
12M Avg Val (INR M)	627

Financials & Valuations(INR b)

Y/E March	2022	2023E	2023E
Sales	85.1	93.9	107.4
EBITDA	24.3	28.8	33.9
Adjusted PAT	11.6	15.3	18.7
EBIT Margin (%)	20.8	23.8	25.5
Cons. Adj EPS (INR)	68.6	90.2	110.6
EPS Gr. (%)	-8.4	31.4	22.6
BV/Sh. (INR)	351.8	433.8	504.5

Ratios

Net D-E	0.7	0.5	0.3
RoE (%)	19.7	23.0	23.6
RoCE (%)	14.9	16.3	18.5
Payout (%)	54.0	36.1	36.1

Valuation

P/E (x)	38.4	29.2	23.8
EV/EBITDA (x)	19.8	15.6	12.8
Div. Yield (%)	0.8	1.0	1.3
FCF Yield (%)	3.6	7.3	5.0
EV/Sales (x)	5.7	4.8	4.1

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	71.3	71.3	71.3
DII	9.7	8.9	8.4
FII	10.9	11.6	11.4
Others	8.1	8.2	9.0

FII Includes depository receipts

- Torrent Pharma (TRP) posted in-line 4QFY22 operating performance. Robust traction in domestic formulation (DF) and growth in Brazil were offset by muted show in the US/EU. TRP continued to build levers such as expanding portfolio offering/field force to fortify its growth prospects over the next 2-3 years.
- We tweak our FY23E/FY24E EPS by +3.5%/+1.7% to factoring in: a) savings due to discontinuation of the Pennsylvania facility, b) operational cost optimization measures, c) incremental business on addition of MRs in DF, d) a healthy uptick in Brazil post-product launches, and e) ongoing price erosion in the US base portfolio. We value TRP at 26x 12M forward earnings to arrive at our TP of INR2,850.
- While TRP's growth outlook is improving in the key markets of DF/US/LATAM/Germany, the present valuation provides limited upside from current levels. **Maintain Neutral.**

Inferior product mix impairs profitability for the quarter

- TRP's 4QFY22 revenue grew 10% YoY to INR21.3b (our estimate: INR21.2b).
- India sales grew 12% YoY to INR10.3b (49% of sales); Brazil sales rose 33% YoY to INR2.5b (12% of sales); and ROW sales grew 12% YoY to INR2.2b (10% of sales). Contract manufacturing sales increased 35% YoY to INR1.3b (6% of sales). The US sales grew 5% YoY to INR2.8b (USD37m; 13% of sales), while Germany sales declined 18% YoY to INR2.2b (EUR26m; 10% of sales).
- Gross Margin (GM) contracted 360bp YoY to 70.8% on product mix change.
- Consequently, EBITDA margin contracted 370bp YoY to 26.3% (our estimate: 25.8%). EBITDA was down 3.6% YoY to INR5.6b (our est. INR5.5b).
- During the quarter, TRP discontinued its liquid facility in the US. TRP recognized an impairment provision as well as the expenses for liquidation of the said asset (INR4.9b).
- Adj. PAT declined 17.7% YoY to INR2.7b (our estimate: INR2.4b).
- For FY22, TRP's revenue grew 6% to INR85b whereas its EBITDA/PAT declined 3%/8% to INR24b/INR12b, respectively.

Highlights from the management commentary

- Management guided for 100-150bp margin improvement for FY23E v/s FY22 level. It would be 300bp margin expansion from the 4QFY22 level.
- The margin expansion would be driven by closure of liquid facility, cost optimization measures and favorable pricing in branded generics segment.
- TRP would be adding 200-300 MRs in the DF segment to cater to the upcoming launches in the cardiovascular category.
- Management expects the Germany business to gain momentum from 2HFY23 onwards on account of the new launches and tender business wins.
- Compared to mid-teens price erosion in the US generics in the past, TRP is witnessing signs of reduction in the price erosion intensity.

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 MotilalOswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Quarterly performance

(INR b)

Y/E March	FY21				FY22				FY21	FY22	Est.	Var.
INR b	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	v/s Est
Net Revenues	20.6	20.2	20.0	19.4	21.3	21.4	21.1	21.3	80.1	85.1	21.2	0.7
YoY Change (%)	1.7	0.6	1.5	-0.5	3.8	5.9	5.7	10.0	0.8	6.3	9.3	
EBITDA	6.8	6.4	6.1	5.8	6.8	6.6	5.4	5.6	25.0	24.3	5.5	2.7
YoY Change (%)	25.1	17.4	12.4	6.2	0.0	3.9	-11.4	-3.6	15.3	-2.8	-6.2	
Margins (%)	32.9	31.5	30.4	30.0	31.7	30.9	25.5	26.3	31.2	28.6	25.8	
Depreciation	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.6	6.6	6.6	1.7	
EBIT	5.2	4.7	4.4	4.2	5.1	4.9	3.7	4.0	18.4	17.7	3.8	5.9
YoY Change (%)	35.4	24.3	16.7	9.7	-0.8	4.7	-15.7	-4.3	21.6	-4.0	-9.6	
Margins (%)	25.1	23.3	22.1	21.5	24.0	23.0	17.6	18.7	23.0	20.8	17.8	
Interest	1.0	0.9	0.9	0.7	0.7	0.7	0.6	0.6	3.6	2.6	0.6	
Other Income	0.0	0.1	0.1	0.4	0.4	0.5	0.5	0.6	0.6	2.0	0.5	
PBT before EO Expense	4.2	3.8	3.6	3.8	4.8	4.7	3.6	4.0	15.4	17.1	3.6	10.5
One-off expenses	0.2	0.0	0.0	0.0	0.0	0.0	0.0	4.9	0.2	4.9	0.0	
PBT after EO Expense	4.0	3.8	3.6	3.8	4.8	4.7	3.6	-0.9	15.3	12.3	3.6	
Tax	0.8	0.7	0.6	0.6	1.5	1.6	1.1	0.3	2.7	4.5	1.2	
Rate (%)	19.4	19.3	16.8	15.4	31.8	33.1	30.3	7.8	17.8	26.2	32.6	
Reported PAT	3.2	3.1	3.0	3.2	3.3	3.2	2.5	-1.2	12.5	7.8	2.4	NA
Adj PAT	3.4	3.1	3.0	3.2	3.3	3.2	2.5	2.7	12.7	11.6	2.4	9.8
YoY Change (%)	56.0	27.0	16.4	38.2	-2.1	1.9	-16.2	-17.7	33.5	-8.4	-25.1	
Margins (%)	16.4	15.4	14.9	16.7	15.5	14.8	11.8	12.5	15.8	13.7	11.5	

Key performance Indicators (Consolidated)

Y/E March	FY21				FY22				FY21	FY22	Est.
INR b	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
India formulations	9.3	9.6	9.3	9.2	10.9	10.9	10.7	10.3	37.4	42.9	10.5
YoY Change (%)	2.0	7.1	6.8	9.8	18.2	12.9	15.3	12.1	6.3	14.6	13.6
US generics	3.7	3.3	2.9	2.7	2.7	2.8	2.4	2.8	12.6	10.7	2.5
YoY Change (%)	-0.8	-13.9	-23.4	-30.1	-28.7	-13.1	-19.5	4.8	-17.2	-15.4	-8.5
Latin America	1.4	1.3	1.7	1.9	1.5	1.6	1.8	2.5	6.3	7.4	2.0
YoY Change (%)	-19.5	-17.3	-8.5	-3.6	9.3	20.9	5.0	32.8	-5.9	17.7	7.0
Europe	2.5	2.6	2.7	2.7	2.6	2.5	2.4	2.2	10.4	9.7	2.6
YoY Change (%)	-6.1	4.4	21.0	23.6	5.7	-3.8	-1.0	-18.4	9.6	-7.0	-3.0
ROW	2.3	2.0	1.9	2.0	2.1	2.2	2.3	2.2	8.2	8.7	2.3
YoY Change (%)	30.7	1.5	-2.1	-4.4	-10.0	9.5	19.0	11.8	5.7	6.6	17.5
Contract manufacturing	1.4	1.4	1.5	1.0	1.5	1.4	1.6	1.3	5.2	5.7	1.4
YoY Change (%)	8.7	13.0	31.8	-10.4	5.8	0.7	0.0	35.8	12.0	10.4	44.4
Cost Break-up											
RM Cost (% of Sales)	26.0	27.5	28.2	25.6	27.6	27.8	30.3	29.2	26.8	28.7	30.8
Staff Cost (% of Sales)	18.1	18.0	18.2	17.6	18.0	18.2	18.4	17.1	18.0	17.9	18.2
R&D Expenses(% of Sales)	5.3	5.9	5.6	6.6	5.9	6.1	5.8	6.5	5.8	5.9	5.8
Other Cost (% of Sales)	22.9	23.1	23.2	26.7	22.7	23.1	23.1	27.4	23.9	24.8	25.3
Gross Margin (%)	74.0	72.5	71.8	74.4	72.4	72.2	69.7	70.8	73.2	71.3	69.2
EBITDA Margin (%)	32.9	31.5	30.4	30.0	31.7	30.9	25.5	26.3	31.2	28.6	25.8
EBIT Margin (%)	25.1	23.3	22.1	21.5	24.0	23.0	17.6	18.7	23.0	20.8	17.8



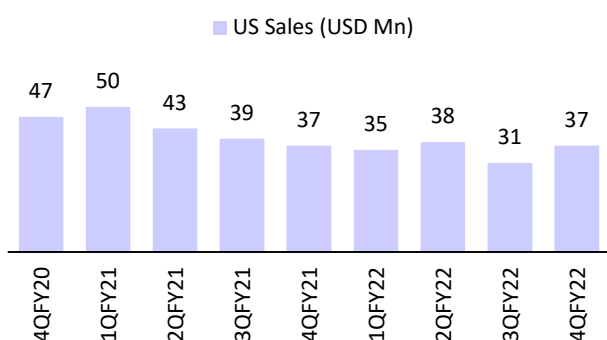
Key takeaways from the management interaction

- TRP's field force stood at 3,900 as of 4QFY22.
- The DF segment posted 8% YoY price growth for the quarter.
- The trade generics business contributed 1.5%-2.0% to the revenue and is completely complementary to the branded business.
- The US sales grew sequentially by 20% aided by the launch of g-Dapsone.
- TRP expects to be in the second wave of g-Revlimid launches.

- Cumulative ANDAs pending for approval stood at 57, with five tentative approvals received. One ANDA was approved during the quarter.
- The business growth (YoY) for Germany during the quarter was adversely impacted by loss of tender and price erosion in the base portfolio.
- Five product introductions have been one of the key reasons for driving growth in Brazil. TRP remains confident to outperform the Brazil market growth (8-10%) going forward.
- Cost optimization measures are expected to come into effect from 1QFY23.
- Gross margin dip for the quarter was largely led by Germany and the US businesses.
- Net debt was at INR34b and Net debt to EBITDA stood at 1.3x.
- Effective tax rate is expected to remain at ~33% level for FY23/FY24.

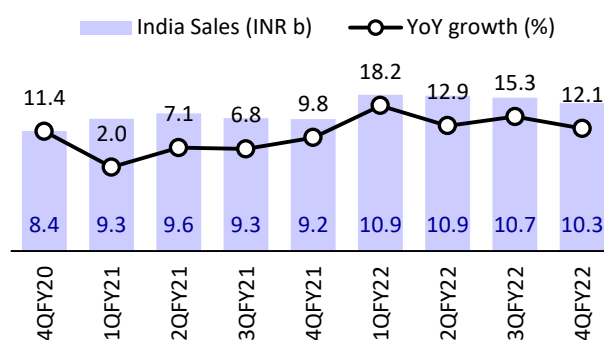
Key exhibits

Exhibit 1: The US sales grow sequentially



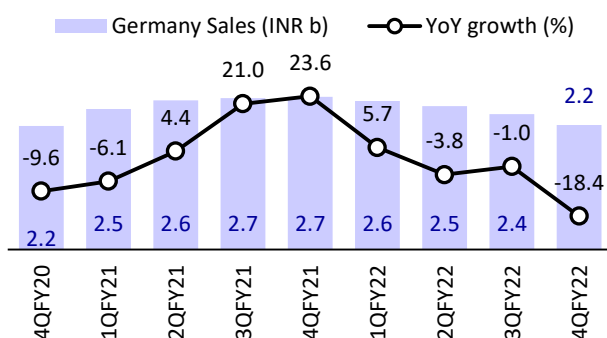
Source: MOFSL, Company

Exhibit 2: Sales from India rise 12% YoY



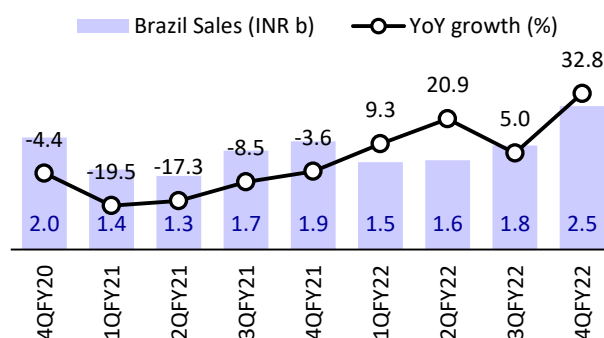
Source: MOFSL, Company

Exhibit 3: Sales from Europe decline ~18% YoY



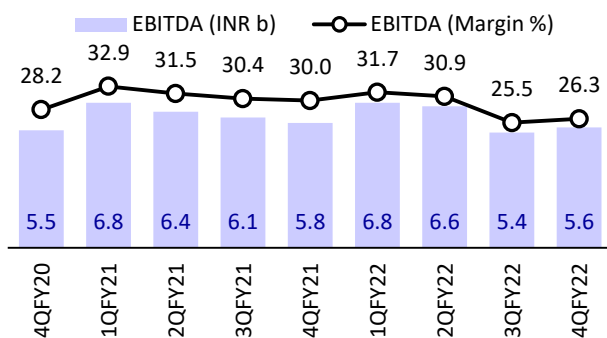
Source: Company, MOFSL

Exhibit 4: Sales from Brazil rise ~33% YoY



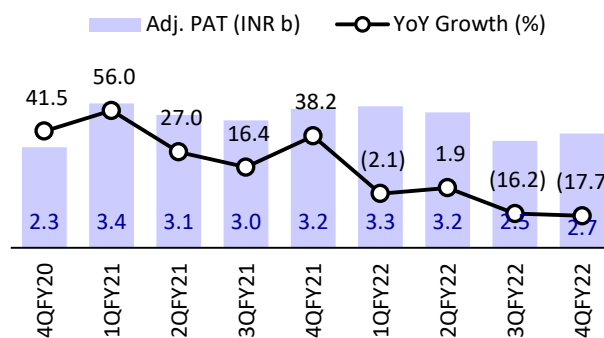
Source: Company, MOFSL

Exhibit 5: EBITDA margin contracts 430bp YoY



Source: MOFSL, Company

Exhibit 6: Adjusted PAT dips ~18% YoY



Source: MOFSL, Company

DF/Brazil drive growth; Revival expected in Germany/US

DF: New Launches/Price growth to drive growth

- DF sales grew 14.6% to INR43b in FY22. TRP has consistently outperformed IPM growth over the past 12M, led by Gastro/CNS/VMN/Anti-Diabetic therapies.
- Considering products losing exclusivity, TRP is gearing up for generic launches and gain healthy traction through adding MR force (300 already added and ~300 to be added in FY23).
- Basis new launches, market share gain in existing products and favorable pricing, we expect 15% sales CAGR in DF over FY22-24.

US: Revival hinges on the successful compliance

- Regulatory headwinds continue to adversely impact US sales in FY22 (down 15% YoY to INR10.7b). Niche launch (g-Dapsone) provided some respite in 4QFY22.
- While TRP continues to file ANDAs for US market including limited competition products, it has also rationalized cost by shutting Pennsylvania facility. This would provide cost saving to the tune of INR1.4b on annual basis.
- Given the easing of pricing pressure and remediation measures to drive successful regulatory outcome, we expect TRP to register 8% CAGR in the US over FY22-24.

Germany: Revival of tender business/new launches to drive growth

- Revenue fell 7% YoY in Germany to INR9.7b in FY22. Sales in Germany were affected by muted demand, coupled with increased competition in the tender market.
- Basis a) upcoming tender wins and b) new launches in FY23, we expect TRP to record 15% sales CAGR in Germany over FY22-24.

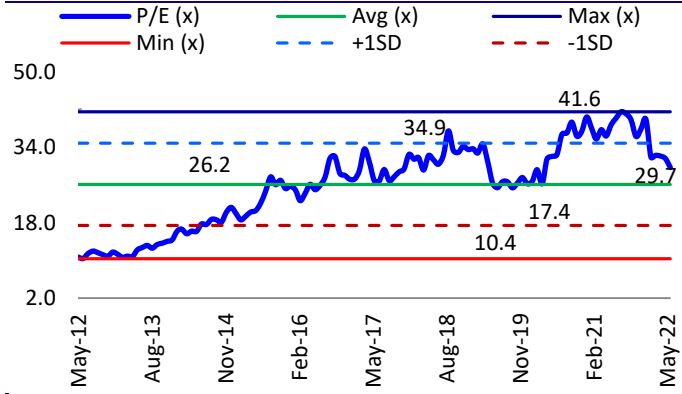
Brazil: On a strong footing

- Brazil business exhibited robust 18% growth to INR7.4b in FY22. Growth was driven by momentum in both the branded and generic segment. TRP launched 5 new products in the market.
- TRP has a strong presence in Brazil being amongst top 5 companies in Brazil. TRP is expected to continue the outperformance against Brazilian pharma market. Accordingly, we expect TRP to record 14% sales CAGR in Brazil over FY22-24.

Expect 27% EPS CAGR over FY22-24; valuation adequately captures this upside

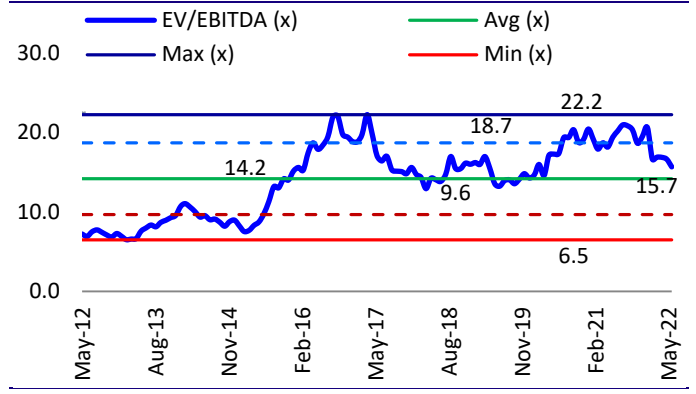
- We raise our FY23E/FY24E EPS estimate by ~3.5%/1.7% to factor in: a) enhanced outlook in DF, b) healthy traction from new launches in Brazil, c) cost optimization, and d) savings on account of closure of Pennsylvania facility.
- We expect 27% earnings CAGR over FY22-24, led by a 15%/15%/14%/8% sales CAGR in DF/Europe/US/LatAm segment and a 300bp margin expansion over FY22-24.
- We value TRP at 26x 12-months forward earnings and roll our TP to INR2,850.
- While TRP may deliver sustained industry outperformance in the DF market, the delays in USFDA inspections continue to act as a headwind in the US business. The current valuation provides limited upside from current levels. Maintain Neutral.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

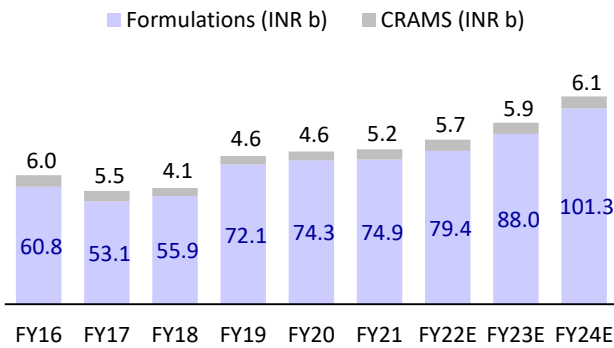
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

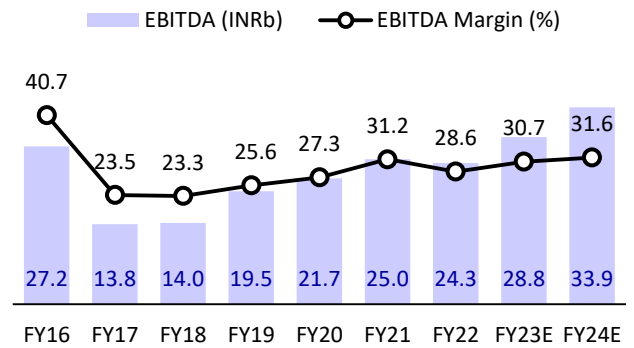
Story in charts

Exhibit 9: Expect Formulations CAGR of 13% over FY22-24



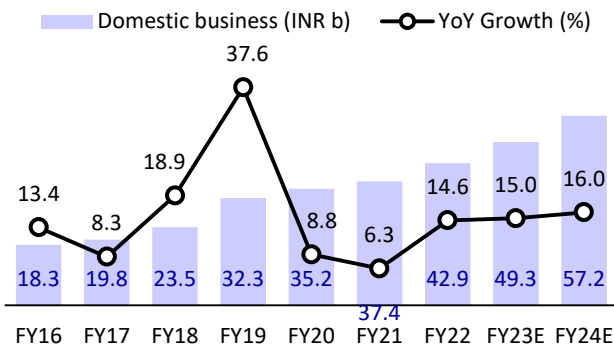
Source: Company, MOFSL

Exhibit 10: Expect EBITDA margin expansion of 300bp over FY22-24



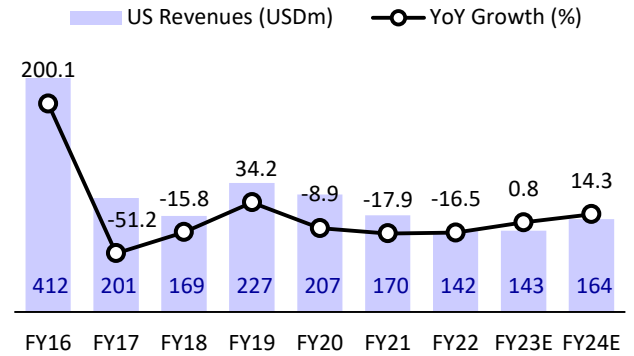
Source: Company, MOFSL

Exhibit 11: Chronic segment to drive DF revenue



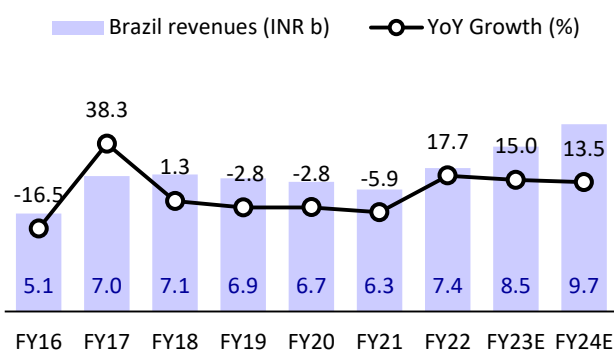
Source: Company, MOFSL

Exhibit 12: Expect growth trend reversal of US generics



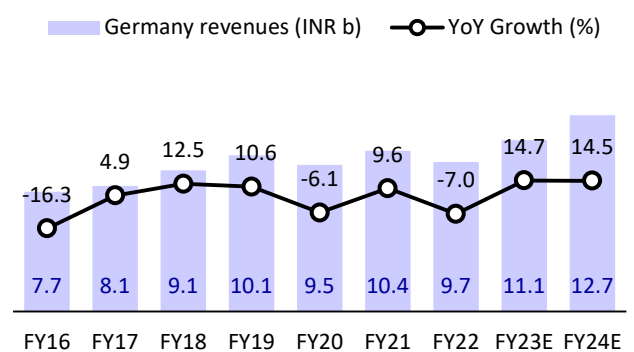
Source: Company, MOFSL

Exhibit 13: Expect ~14% Brazil sales CAGR over FY22-24



Source: Company, MOFSL

Exhibit 14: Expect ~15% Europe sales CAGR over FY22-24



Source: Company, MOFSL

Financials and valuations

Income Statement									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	66,760	58,570	60,020	76,100	79,390	80,050	85,080	93,900	1,07,403
Change (%)	43.5	-12.3	2.5	26.8	4.3	0.8	6.3	10.4	14.4
EBITDA	27,201	13,774	13,990	19,490	21,700	25,010	24,310	28,827	33,939
Margin (%)	40.7	23.5	23.3	25.6	27.3	31.2	28.6	30.7	31.6
Depreciation	2,460	3,070	4,090	6,180	6,540	6,580	6,620	6,445	6,576
EBIT	24,741	10,704	9,900	13,310	15,160	18,430	17,690	22,382	27,364
Int. and Finance Charges	1,859	2,060	3,080	5,040	4,510	3,580	2,550	2,201	2,078
Other Income - Rec.	2,156	2,230	2,990	570	1,220	570	1,970	2,100	2,150
PBT before EO Expense	25,039	10,874	9,810	8,840	11,870	15,420	17,110	22,282	27,436
EO Expense/(Income)	1,400	0	500	3,220	0	160	4,850	0	0
PBT after EO Expense	23,639	10,874	9,310	5,620	11,870	15,260	12,260	22,282	27,436
Tax	5,601	1,540	2,530	1,260	1,620	2,930	4,490	7,019	8,725
Tax Rate (%)	22.4	14.2	25.8	14.3	13.6	19.0	26.2	31.5	31.8
Reported PAT	18,038	9,334	6,780	4,360	10,250	12,330	7,770	15,263	18,712
Less: Minority Interest	0	0	0	0	0	0	0	0	0
Net Profit	18,038	9,334	7,782	7,228	10,250	12,330	7,770	15,263	18,712
Adj. PAT	10,109	9,334	7,782	7,228	9,496	12,680	11,617	15,263	18,712

Balance Sheet									(INR m)
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	846	846	850	850	850	850	850	850	850
Total Reserves	34,095	42,655	45,370	46,390	47,390	57,530	58,680	72,561	84,516
Net Worth	34,941	43,501	46,220	47,240	48,240	58,380	59,530	73,411	85,366
Minority Interest	5	5	10	0	0	0	0	0	0
Deferred liabilities	-1114	-2085	-2760	-3630	-4330	-4210	-4940	-4940	-4940
Total Loans	18,534	22,408	57,370	48,540	44,080	36,450	40,180	33,180	26,180
Capital Employed	52,365	63,830	100,840	92,150	87,990	90,620	94,770	1,01,651	1,06,606
Gross Block	34,661	44,172	92,168	99,848	102,918	102,848	1,04,548	1,07,348	1,09,848
Less: Accum. Deprn.	6,070	7,288	11,378	17,558	24,098	30,678	37,298	43,742	50,318
Net Fixed Assets	28,591	36,884	80,790	82,290	78,820	72,170	67,250	63,605	59,530
Capital WIP	10,416	5,195	4,230	4,790	7,120	8,710	6,720	6,720	6,720
Investments	1	1	0	50	40	440	440	440	440
Curr. Assets	48,739	56,071	54,650	50,380	50,070	55,220	51,650	82,043	97,680
Inventory	13,580	15,592	19,660	19,350	21,480	26,810	24,620	24,301	27,300
Account Receivables	14,451	13,442	12,540	14,360	16,490	15,230	16,330	22,536	25,777
Cash and Bank Balance	6,470	8,937	8,670	8,160	6,660	6,040	4,030	27,968	36,676
Loans and Advances	14,238	18,100	13,780	8,510	5,440	7,140	6,670	7,238	7,927
Curr. Liability and Prov.	35,382	34,321	38,830	45,360	48,060	45,920	31,290	51,157	57,763
Account Payables	31,644	30,384	32,690	38,330	40,490	37,910	23,490	42,067	47,257
Provisions	3,738	3,937	6,140	7,030	7,570	8,010	7,800	9,090	10,506
Net Current Assets	13,358	21,750	15,820	5,020	2,010	9,300	20,360	30,886	39,917
Appl. of Funds	52,365	63,830	100,840	92,150	87,990	90,620	94,770	1,01,651	1,06,606

Financials and valuations

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
EPS	59.7	55.2	46.0	42.7	56.1	74.9	68.6	90.2	110.6
Cash EPS	121.1	73.3	70.2	79.2	99.2	112.9	85.0	128.3	149.4
BV/Share	206.5	257.1	273.1	279.2	285.1	345.0	351.8	433.8	504.5
DPS	41.2	10.0	13.0	18.0	32.0	22.5	20.6	27.1	33.2
Payout (%)	46.6	21.9	39.1	84.4	63.6	36.6	54.0	36.1	36.1
Valuation (x)									
P/E	44.1	47.8	57.3	61.7	46.9	35.2	38.4	29.2	23.8
Cash P/E	21.7	35.9	37.6	33.3	26.6	23.3	31.0	20.5	17.6
P/BV	12.8	10.2	9.6	9.4	9.2	7.6	7.5	6.1	5.2
EV/Sales	6.9	7.8	8.2	6.4	6.1	5.9	5.7	4.8	4.1
EV/EBITDA	16.8	33.3	35.3	24.9	22.3	19.0	19.8	15.6	12.8
Dividend Yield (%)	1.6	0.4	0.5	0.7	1.2	0.9	0.8	1.0	1.3
Return Ratios (%)									
RoE	33.8	23.8	17.3	15.5	19.9	23.8	19.7	23.0	23.6
RoCE	40.4	18.6	11.3	11.9	15.0	16.7	14.9	16.3	18.5
RoIC	54.1	21.6	10.7	13.7	17.1	20.3	16.4	20.4	28.9
Working Capital Ratios									
Fixed Asset Turnover (x)	2.3	1.8	1.0	0.9	1.0	1.1	1.2	1.4	1.7
Debtor (Days)	83	87	79	65	71	72	68	76	82
Inventory (Days)	74	97	120	93	99	122	106	94	93
Working Capital Turnover (Days)	38	80	43	-15	-21	15	70	11	11
Leverage Ratio (x)									
Interest Coverage Ratio	13.3	5.2	3.2	2.6	3.4	5.1	6.9	10.2	13.2
Debt/Equity ratio	0.5	0.5	1.2	1.0	0.9	0.6	0.7	0.5	0.3

Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Oper. Profit/(Loss) before Tax	25,810	13,950	13,396	11,794	18,410	21,840	18,880	28,726	34,012
Interest/Dividends Recd.	3,149	1,234	1,983	8,005	2,207	3,400	6,890	101	-72
Direct Taxes Paid	-5,773	-3,843	-2,836	-2,812	-2,840	-1,760	-4,210	-7,019	-8,725
(Inc.)/Dec. in WC	4,236	-1,252	-3,602	994	-3,858	-3,370	-3,530	13,412	-322
CF from Operations incl. EO Expense	27,421	10,088	8,942	17,981	13,918	20,110	18,030	35,220	24,893
(inc.)/dec. in FA	-5,925	-4,859	-7,892	-6,605	-4,028	-3,340	-1,970	-2,800	-2,500
Free Cash Flow	21,496	5,230	1,050	11,376	9,890	16,770	16,060	32,420	22,393
(Pur.)/Sale of Investments	-2,454	-3,010	-39,178	4,192	2,513	-1,150	-10	0	0
CF from Investments	-8,379	-7,869	-47,070	-2,413	-1,516	-4,490	-1,980	-2,800	-2,500
Issue of shares	0	0	0	0	0	0	0	0	0
(Inc.)/Dec. in Debt	-3,837	2,020	39,578	-5,013	-3,129	-9,220	-8,140	-2,871	-7,000
Interest Paid	-2,117	-1,913	-2,757	-5,034	-4,854	-3,610	-2,580	-101	72
Dividend Paid	-10,922	-2,037	-2,648	-3,097	-7,185	-3,380	-6,770	-5,511	-6,756
CF from Fin. Activity	-16,877	-1,929	34,174	-13,145	-15,490	-16,560	-17,810	-8,483	-13,684
Inc./Dec. in Cash	2,166	290	-3,954	2,424	-3,088	-940	-1,760	23,937	8,709
Opening Balance	8,650	10,499	10,676	7,020	9,401	6,618	6,040	4,030	27,968
Add/(less) Forex in Cash/Cash eq.	-316	-113	246	-43	306	362	-250	0	0
Closing Cash and Cash Eq.	10,499	10,676	7,020	9,401	6,618	6,040	4,030	27,968	36,676
Bank balances*	-4,029	-1,739	1,650	-1,241	42				
Total Cash and Cash Eq.	6,470	8,937	8,670	8,160	6,660	6,040	4,030	27,968	36,676

(INR m)

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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