

Macrotech Developers

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR1,034 **TP: INR1,295 (+25%)** **Buy**

Bengaluru foray off to a promising start

Delivers a healthy P&L performance

- Macrotech Developers (LODHA) achieved sales of INR34b (7% below our estimate), up 12% YoY but down 4% QoQ. Pre-sales for 9MFY24 stood at INR103b, up 14% YoY. The residential business generated bookings of INR32b in 3Q (up 5% YoY) and INR99b in 9MFY24 (up 16% YoY).
- Sales volumes for 3Q rose 4% YoY to 2.6msf. Blended realization was flat YoY but declined 8% QoQ due to lower contributions from the South and Central Mumbai projects.
- Its first project in Bengaluru fetched a strong response, as 80% of the inventory was sold within the first week. It contributed INR6.6b to the overall sales. The realization was also superior at INR12k/sf vs. INR8-9k/sf prevailing in the micro-market
- LODHA reported its highest-ever revenue of INR29.3b, up 65% YoY/68% QoQ and in line with our estimate. EBITDA (excluding other income) jumped 116% YoY/112% QoQ to INR8.8b, as margin improved 700bp YoY/600bp QoQ to 30%. LODHA exited the UK business and recognized an exceptional loss of INR1b, and hence, PAT growth moderated 25% YoY to INR5b.

Net debt flat sequentially; full-year BD guidance achieved

- Collections were flat YoY at INR26b and OCF stood at INR10b (excluding proceeds from the UK), down 28% YoY/18% QoQ.
- During the quarter, LODHA acquired three new projects in South & Central Mumbai, with a cumulative GDV of INR60b. During 9MFY24, the company achieved a BD of INR203b – higher than the full-year guidance of INR175b.
- LODHA generated INR14b of surplus cash, which was largely utilized for new project acquisitions. Hence, net debt was flat QoQ at INR67.5b, with a net D/E of 0.5x. With significant investments towards BD already done, management reiterated its guidance of reducing debt levels to 1x of OCF by FY24-end.

Palava set to benefit from the improving infrastructure

- The operationalization of key infrastructure projects will significantly improve the attractiveness of Palava as a residential and warehousing destination.
- In 3QFY24, the company concluded a land transaction at the highest-ever realization of INR65m/acre – higher by 2.5x since CY21, and management believes it will gradually increase to INR100m/acre.
- From FY25E, LODHA plans to launch premium projects at Palava as the ecosystem is now ready, and hence, while the LfL price growth will remain below wage growth, the overall realization improvement in Palava will be higher due to the offering of premium projects going forward.
- The company is aiming to generate sales of USD1b+ over the next few years vs. its current run-rate of INR30b.

Bloomberg	LODHA IN
Equity Shares (m)	963
M.Cap.(INRb)/(USDb)	997.5 / 12
52-Week Range (INR)	1228 / 356
1, 6, 12 Rel. Per (%)	1/28/81
12M Avg Val (INR M)	1118

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	100.2	140.6	182.3
EBITDA	24.1	37.3	51.9
EBITDA (%)	24.0	26.5	28.5
Net profit	14.2	23.7	34.4
EPS (INR)	14.8	24.6	35.7
EPS Growth (%)	-7.4	66.3	45.3
BV/Share (Rs)	142.7	162.3	190.9

Ratios

Net D/E	0.4	0.3	0.2
RoE (%)	10.8	16.1	20.2
RoCE (%)	8.5	12.4	16.9
Payout (%)	20.0	20.0	20.0

Valuations

P/E (x)	70.0	42.1	29.0
P/BV (x)	7.2	6.4	5.4
EV/EBITDA (x)	44.0	27.8	19.8
Div Yield (%)	0.3	0.5	0.7

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	74.9	74.9	75.0
DII	3.2	3.6	4.1
FII	21.1	20.5	19.4
Others	0.8	1.1	1.5

Key concall highlights

- **Fund Raise:** LODHA's current cash flow run-rate and the B/S strength are sufficient to achieve its targeted growth over the medium term. However, if any inorganic opportunities arise that complement the internal growth targets, it is prudent to raise the required capital to capture the same. Hence, the Board has passed an enabling resolution to raise equity capital of up to INR50b.
- Funds will only be raised if it comes across opportunity, which will enable it to grow beyond the targeted growth rate of 20% or if it improves the longevity of growth that the company can deliver.
- **Bengaluru:** Preference for premium housing has been growing at a rapid pace in the city, as the share of homes with INR15m+ ticket size is at 25% currently vs. 10% a few years back.
- LODHA will continue to focus on premium and luxury segments and is targeting to achieve INR30-35b annual sales over the next few years.
- **Annuity business:** The avenues for rental income are FMS business, the Warehousing/logistics business, and selective office/retail assets. The rental income would be INR15b by FY30E – 25% will be from FMS, 30% from warehousing and balance from office/retail.

Valuation and view: on track to deliver consistent performance; retain BUY

- We trim our FY24E bookings by 5% to factor in lower-than-expected bookings in 3Q. With a strong launch pipeline of 4.4msf worth INR63b for 4QFY24, LODHA remains on track to achieve its annual bookings guidance of INR145b.
- Overall, LODHA has been delivering a steady performance across its key parameters of pre-sales, cash flows, business development, profitability, and return ratios over the last two years. As it prepares itself to capitalize on the strong growth and consolidation opportunities, we expect this consistency in operational performance to continue.
- Further, its low leverage of 0.5x of equity can provide firepower to target aggressive growth given an opportunity. Our terminal growth rate of 5% in our DCF-based methodology is the least it can achieve in the long term, leaving further headroom for re-rating.
- **Reiterate BUY with an unchanged TP of INR1,295, indicating 25% upside potential.**

Financial Performance (INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Gross Sales	26,758	17,654	17,738	32,554	16,174	17,496	29,306	37,262	94,704	1,00,238	28,067	4
YoY Change (%)	67	-17	-14	-5	-40	-1	65	14	2.6	5.8	58.2	
Total Expenditure	22,091	13,414	13,701	24,837	12,874	13,335	20,479	29,493	74,042	76,181	21,277	
EBITDA	4,667	4,240	4,038	7,717	3,300	4,161	8,827	7,769	20,661	24,057	6,789	30
Margins (%)	17.4	24.0	22.8	23.7	20.4	23.8	30.1	20.8	21.8	24.0	24.2	
Adj. EBITDA (as per co.)	9,030	5,250	5,700	9,800	4,600	5,500	10,800	7,769	29,780	28,669	6,789	59
Margins (%)	33.7	29.7	32.1	30.1	28.4	31.4	36.9	20.8	31.4	28.6	24.2	
Depreciation	196	219	217	296	240	293	333	212	928	1,078	280	
Interest	1,193	1,249	1,176	1,172	1,241	1,231	1,168	1,327	4,791	4,967	1,260	-7
Other Income	0	-42	1,286	163	544	55	281	285	1,408	1,165	227	24
PBT before EO expense	3,278	2,730	3,931	6,412	2,363	2,692	7,607	6,515	16,350	19,177	5,477	39
Extra-Ord expense	0	-11,774	0	0	0	0	1,049	0	-11,774	-1,049	0	
PBT	3,278	-9,044	3,931	6,412	2,363	2,692	6,558	6,515	4,576	18,128	5,477	20
Tax	559	270	-119	-1,080	556	624	1,439	1,913	-370	4,532	1,369	
Rate (%)	17.0	-3.0	-3.0	-16.8	23.5	23.2	21.9	29.4	-0.1	0.3	25.0	
Minority Interest & P/L of Asso. Cos.	6	16	0	58	15	40	67	33	80	155	24	
Reported PAT	2,713	-9,330	4,050	7,434	1,792	2,028	5,052	4,569	4,866	13,441	4,083	24
Adj PAT (as per co.)	1,200	3,670	3,000	7,500	1,700	2,100	5,700	4,569	15,370	14,069	4,083	40
YoY Change (%)	-2	28	8	31	42	-43	90	-39	21.9	-8.5	36.1	
Margins (%)	4.5	20.8	16.9	23.0	10.5	12.0	19.4	12.3	16.2	14.0	14.5	490bp

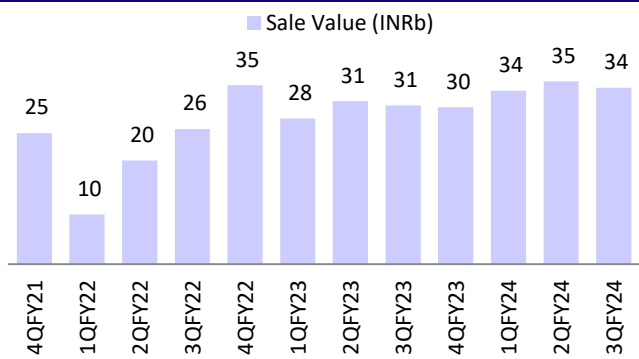
Operational Performance

Key metrics	FY23				FY24				FY23	FY24	FY24E	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sale Volume (msf)	2.2	2.1	2.5	2.5	2.8	2.6	2.6	2.9	9.3	10.9	2.5	2
Sale Value (INRb)	28.1	31.5	30.7	30.3	33.5	35.3	34.1	41.6	120.6	144.5	36.7	-7
Collections (INRb)	26.2	23.8	26.8	29.3	24.0	27.5	25.9	35.4	106.0	119.9	30.9	-16
Realization (INR/sft)	11,027	13,743	11,920	11,680	11,429	13,308	12,192	14,206	12,056	13,223	13,880	-12

Source: Company, MOFSL

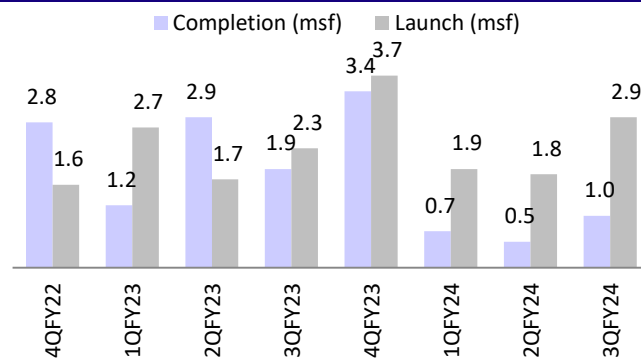
Key exhibits

Exhibit 1: Reported pre-sales of INR34b, up 12% YoY



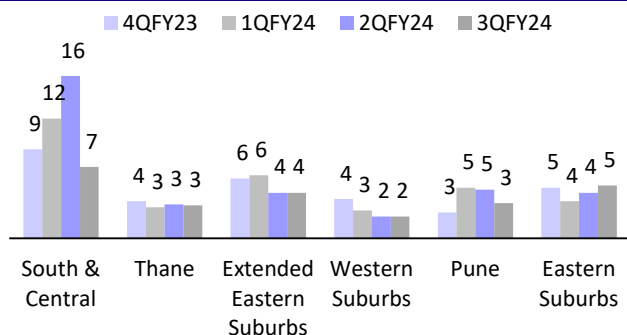
Source: Company, MOFSL

Exhibit 2: Launched 3msf and delivered 1msf in 3Q



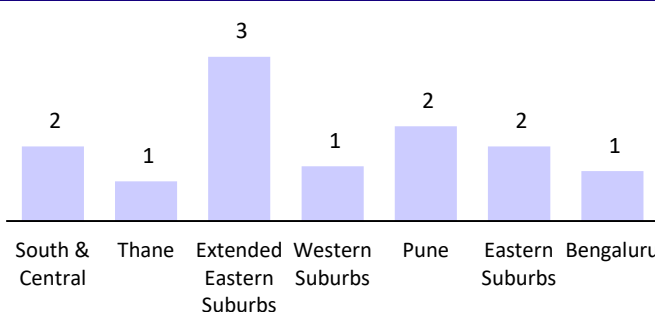
Source: Company, MOFSL

Exhibit 3: Steady performance in under-penetrated markets



Source: Company, MOFSL

Exhibit 4: Strong launch pipeline of 11msf for the next 12 months



Source: Company, MOFSL

Exhibit 5: Launch pipeline for FY24 has a healthy mix of Own/JDA projects

Micro-market	Own/JDA	Area (msf)	Est. GDV (INRb)	No. of Projects
South Central	JDA	0.5	24	1
Extended Eastern Suburbs	Own	1.0	7	2
Eastern Suburbs	JDA	0.4	6	1
Western Suburbs	JDA	0.5	10	2
Pune	JDA	0.8	6	3
Thane	Own	0.3	3	1
Bangalore	JDA	1.0	7	1
Total		4.5	63	11

Source: Company, MOSL

Exhibit 6: In 9MFY24, it signed new projects worth GDV of INR203b

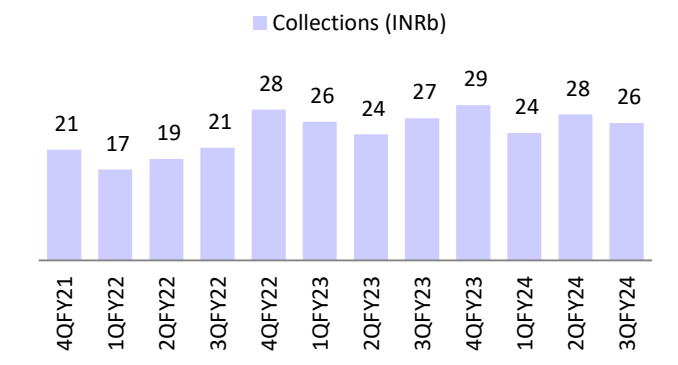
Micro-market	Saleable Area (msf)	Est GDV (INRb)
Signed in 9MFY24		
MMR - South Central	4.3	74
MMR - South Central	1.1	16
MMR - South Central	0.4	12
MMR - Western Suburbs	0.3	10
Bengaluru - South	1	8
MMR - Eastern Suburbs	0.7	13
MMR - Western Suburbs	0.5	10
MMR - South Central	0.8	24
MMR - South Central	0.8	24
MMR - South Central	0.4	12
Total	10	203

Exhibit 7: Annualized cost inflation for the company’s portfolio moderated since Mar’22

Commodity/Component	% Share in total cost	% Change over Mar’21 to Mar’22	Mar’21 to Dec’23	
			% Change	Weighted Impact
Steel	12.9	35.1	-1.2	-0.2
Flooring Tiles	5.0	23.9	15.3	0.8
Electrical/Plumbing	11.8	10.1	4.5	0.5
Labour	34.4	3.0	6.8	2.4
External Windows	3.9	21.9	8.8	0.3
RMC	11.0	6.3	13.9	1.5
Lifts & Elevators	3.3	16.6	37.7	1.2
Carpentry Materials	3.5	15.5	5.6	0.2
Painting	3.8	13.1	33.6	1.3
Overall		13.7		10.8

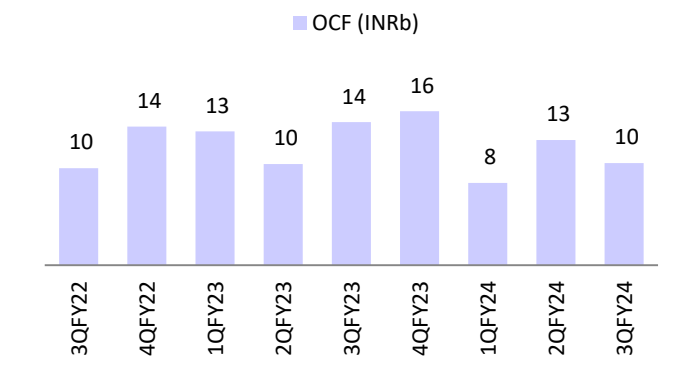
Source: Company, MOFSL

Exhibit 8: Collections were healthy at INR26b



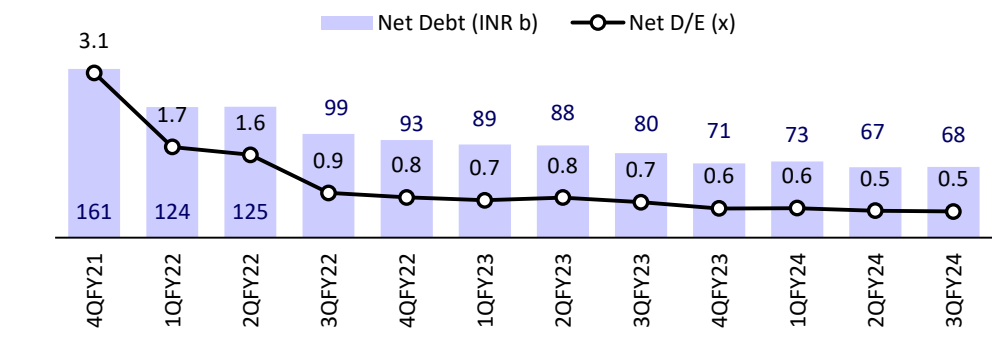
Source: MOFSL, Company

Exhibit 9: The company generated an OCF of INR10b



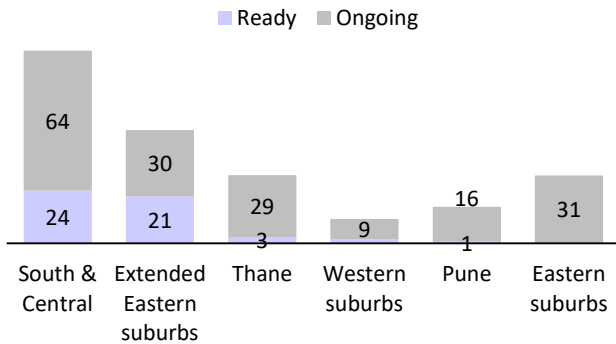
Source: MOFSL, Company

Exhibit 10: Since IPO, the company has seen consistent reduction in net debt



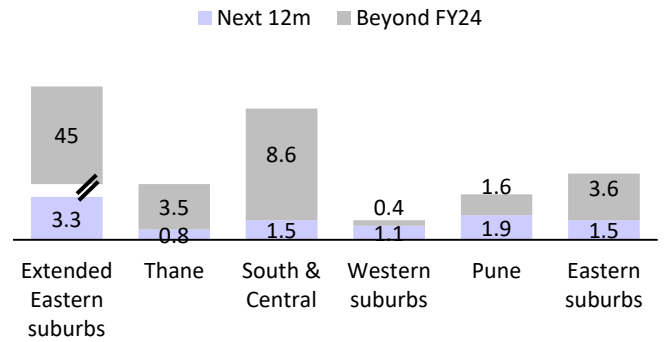
Source: MOFSL, Company

Exhibit 11: Focus on execution led to INR56b of ready inventory, with INR190b of inventory in progress



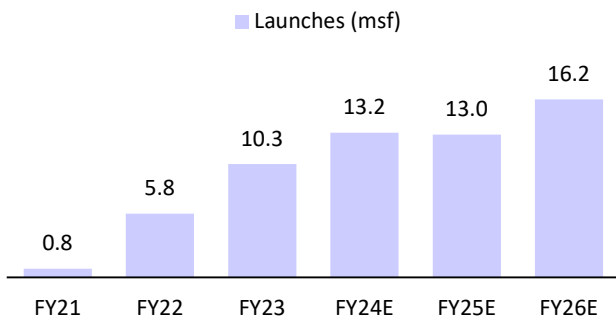
Source: Company, MOFSL

Exhibit 12: The company has a strong ~75msf of pipeline to be launched in the medium term



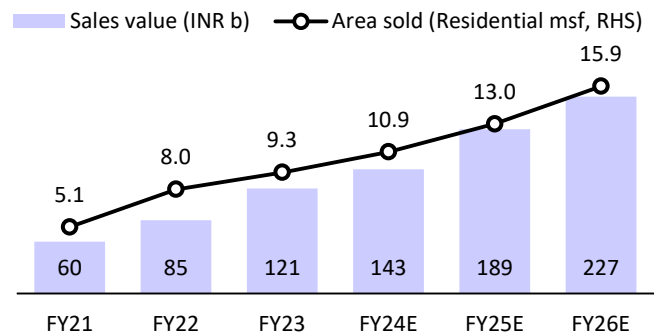
Source: Company, MOFSL

Exhibit 13: Expect launches to further rise from FY24



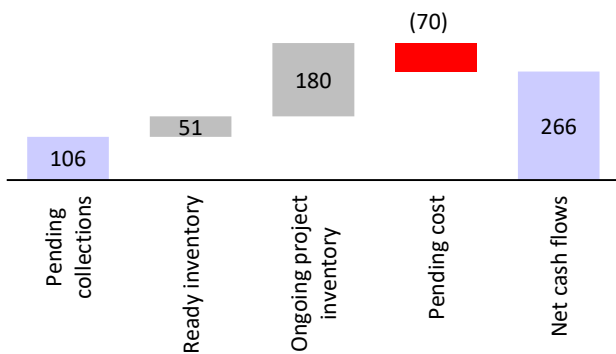
Source: MOFSL, Company

Exhibit 14: To report 25% CAGR in pre-sales over FY24-26 to INR227b



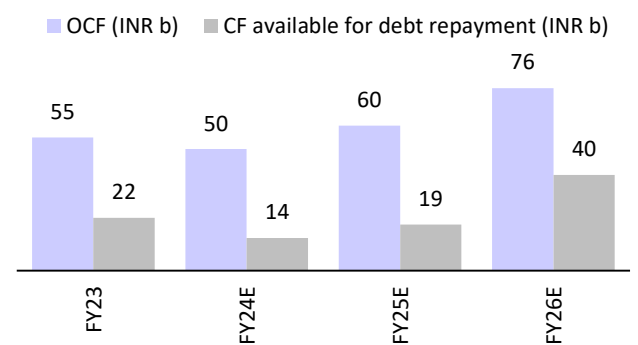
Source: MOFSL, Company

Exhibit 15: Over the next 4-5 years, ongoing and completed project pipeline can generate ~INR270b of net cash inflows

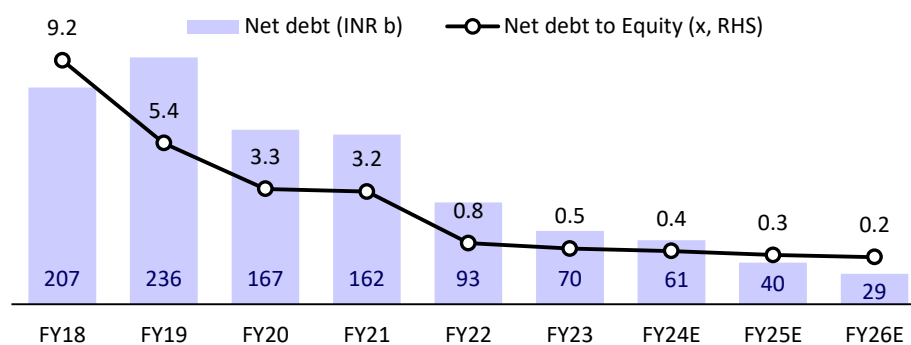


Source: Company, MOFSL

Exhibit 16: Expect the company to generate ~INR60b OCF by FY25



Source: Company, MOFSL

Exhibit 17: Healthy cash flows could enable accelerated deleveraging

Source: MOFSL, Company

Exhibit 18: Our earnings revision summary

(INR m)	Old			New			Change		
	FY24E	FY25E	FY25E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	1,00,238	1,40,643	1,82,268	1,00,238	1,40,643	1,82,268	0%	0%	0%
EBITDA	24,057	37,270	51,946	24,057	37,270	51,946	0%	0%	0%
Adj. PAT	14,111	23,980	34,803	14,228	23,659	34,367	1%	-1%	-1%
Pre-sales	1,53,749	1,89,093	2,24,772	1,46,437	1,87,501	2,26,933	-5%	-1%	1%
Collections	1,18,278	1,34,439	1,52,509	1,16,094	1,31,394	1,50,216	-2%	-2%	-2%
OCF	58,360	62,969	77,957	50,474	60,280	75,826	-14%	-4%	-3%

Source: MOFSL, Company

Valuation and view: Profit-led growth trajectory intact; reiterate BUY

- We value LODHA on an SoTP basis: 1) The residential segment is valued using the DCF of four-year cash flows at a WACC of 12% and a terminal growth rate of 5%; 2) the commercial business is valued at a cap rate of 8% for operational assets and DCF for ongoing assets; 3) the industrial and UK Investment is valued at a present value of future cash flows, discounted at a WACC of 12%.
- We arrive at NAV of INR1,247b, assuming net debt of INR58b in FY24. Applying zero discount to its NAV, we arrive at a TP of INR1,295, indicating a 25% upside potential.

Exhibit 19: Based on our SoTP approach, we arrive at an NAV of INR1247b (or INR1,295 per share), implying a 25% upside potential

Particulars		Value (INR b)	Per share	% contribution	% of CMP
Residential	❖ DCF of 4 years cash flow at WACC of 12% and terminal value assuming 5% long term growth	1,177	1,222	94%	116%
Commercial	❖ Cap rate of 8% for operational assets and DCF for the ongoing assets	30	31	2%	3%
Industrial	❖ PV of future cash flows discounted at WACC of 12%	93	97	7%	9%
UK Investment	❖ PV of future cash flow discounted at WACC of 12%	6	6	0%	1%
Gross asset value		1,305	1,355	105%	128%
Net debt	❖ FY24E	(58)	(60)	-5%	-6%
Net asset value		1,247	1,295	100%	123%
No. of share (m)		963.0			
Price Objective		1,295			
CMP		1,034			
Upside (%)		25%			

Source: MOFSL, Company

Financials and valuations

Consolidated Income Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	1,24,426	54,486	92,332	94,704	1,00,238	1,40,643	1,82,268
Change (%)	4.5	-56.2	69.5	2.6	5.8	40.3	29.6
Total Expenditure	1,05,353	40,766	71,085	74,042	76,181	1,03,372	1,30,322
% of Sales	84.7	74.8	77.0	78.2	76.0	73.5	71.5
EBITDA	19,073	13,720	21,247	20,661	24,057	37,270	51,946
Margin (%)	15.3	25.2	23.0	21.8	24.0	26.5	28.5
Depreciation	2,924	734	748	928	1,078	1,134	1,192
EBIT	16,149	12,985	20,499	19,733	22,979	36,137	50,755
Int. and Finance Charges	6,544	11,257	6,803	4,791	4,967	3,180	2,180
Other Income	435	3,231	3,460	1,408	1,165	1,063	742
PBT bef. EO Exp.	10,039	4,959	17,156	16,350	19,177	34,020	49,317
EO Items	2	-4,628	0	-11,774	-1,049	0	0
PBT after EO Exp.	10,041	332	17,156	4,576	18,128	34,020	49,317
Total Tax	2,615	-147	5,080	-370	4,532	10,206	14,795
Tax Rate (%)	26.0	-44.4	29.6	-8.1	25.0	30.0	30.0
Minority Interest	139	77	61	80	155	155	155
Reported PAT	7,286	402	12,014	4,866	13,441	23,659	34,367
Adjusted PAT	7,285	7,084	12,014	15,370	14,228	23,659	34,367
Change (%)	-55.5	-2.8	69.6	27.9	-7.4	66.3	45.3
Margin (%)	5.9	13.0	13.0	16.2	14.2	16.8	18.9

Source: MOFSL, Company

Consolidated Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	3,959	3,959	4,815	4,815	4,815	4,815	4,815
Total Reserves	41,564	42,031	1,16,235	1,21,809	1,32,561	1,51,489	1,78,982
Net Worth	45,523	45,990	1,21,050	1,26,624	1,37,377	1,56,304	1,83,797
Minority Interest	5,192	5,269	568	596	596	596	596
Total Loans	1,84,232	1,81,669	1,15,367	90,602	73,602	53,602	33,602
Deferred Tax Liabilities	-935	-2,098	1,911	332	1,288	8,249	20,584
Capital Employed	2,34,011	2,30,829	2,38,896	2,18,153	2,12,862	2,18,751	2,38,579
Gross Block	17,499	17,608	18,318	19,487	20,565	21,699	22,891
Less: Accum. Deprn.	5,649	6,383	7,130	8,059	9,137	10,270	11,462
Net Fixed Assets	11,851	11,226	11,187	11,429	11,429	11,429	11,429
Investment Property	2,882	2,767	2,650	1,539	1,539	1,539	1,539
Goodwill on Consolidation	5,477	5,471	5,388	5,303	5,303	5,303	5,303
Capital WIP	63	63	0	0	0	0	0
Total Investments	15,529	15,794	5,740	2,460	2,305	2,150	1,995
Curr. Assets, Loans&Adv.	3,70,188	3,55,663	3,59,824	3,70,816	3,85,509	4,23,011	4,94,588
Inventory	2,90,314	2,83,007	2,73,583	3,01,167	3,02,087	3,31,377	3,74,524
Account Receivables	7,943	6,545	6,461	7,393	4,119	5,780	7,490
Cash and Bank Balance	1,870	3,668	12,457	18,242	10,290	11,842	2,561
Loans and Advances	70,061	62,442	67,322	44,013	69,013	74,013	1,10,013
Curr. Liability & Prov.	1,71,979	1,60,153	1,45,892	1,73,393	1,93,222	2,24,681	2,76,274
Account Payables	22,728	16,978	15,087	20,962	19,224	26,973	34,956
Other Current Liabilities	1,49,012	1,42,963	1,30,581	1,52,129	1,73,697	1,97,407	2,41,017
Provisions	239	212	224	302	302	302	302
Net Current Assets	1,98,210	1,95,509	2,13,932	1,97,422	1,92,286	1,98,330	2,18,313
Appl. of Funds	2,34,011	2,30,829	2,38,896	2,18,153	2,12,862	2,18,751	2,38,579

Source: MOFSL, Company

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	20.7	9.2	8.9	12.5	16.0	14.8	24.6	35.7
Cash EPS	23.1	12.9	9.9	13.3	16.9	15.9	25.7	36.9
BV/Share	48.5	57.5	58.1	125.7	131.5	142.7	162.3	190.9
DPS	0.0	0.0	0.0	0.0	0.0	2.8	4.9	7.1
Payout (%)	0.0	0.0	0.0	0.0	0.0	20.0	20.0	20.0
Valuation (x)								
P/E	36.6	82.2	84.5	60.6	47.4	70.0	42.1	29.0
Cash P/E	32.7	58.6	76.6	57.0	44.7	65.1	40.2	28.0
P/BV	15.6	13.1	13.0	6.0	5.7	7.2	6.4	5.4
EV/Sales	7.1	6.3	14.3	9.0	8.5	10.6	7.4	5.6
EV/EBITDA	26.8	40.9	56.6	39.1	38.7	44.0	27.8	19.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.3	0.5	0.7
FCF per share	-7.1	47.3	32.0	27.4	28.7	20.4	32.8	22.0
Return Ratios (%)								
RoE	54.0	17.4	15.5	14.4	12.4	10.8	16.1	20.2
RoCE	7.4	4.2	10.2	7.3	10.1	8.5	12.4	16.9
RoIC	7.9	4.8	8.8	6.7	10.2	8.7	12.5	16.2
Working Capital Ratios								
Fixed Asset Turnover (x)	6.7	7.1	3.1	5.0	4.9	4.9	6.5	8.0
Asset Turnover (x)	0.4	0.5	0.2	0.4	0.4	0.5	0.6	0.8
Inventory (Days)	1,273	852	1,896	1,082	1,161	1,100	860	750
Debtor (Days)	15	23	44	26	28	15	15	15
Creditor (Days)	69	67	114	60	81	70	70	70
Leverage Ratio (x)								
Current Ratio	2.3	2.2	2.2	2.5	2.1	2.0	1.9	1.8
Interest Cover Ratio	5.4	2.5	1.2	3.0	4.1	4.6	11.4	23.3
Net Debt/Equity	6.5	4.0	3.9	0.9	0.6	0.5	0.3	0.2

Consolidated - Cash Flow Statement								(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	24,889	10,007	4,959	17,156	4,576	18,128	34,020	49,317
Depreciation	1,944	3,064	734	748	928	1,078	1,134	1,192
Interest & Finance Charges	30,032	31,119	25,246	19,923	13,890	9,031	6,360	4,360
Direct Taxes Paid	-3,116	-821	857	-1,778	-2,110	-3,576	-3,244	-2,460
(Inc)/Dec in WC	-59,476	-4,112	-1,218	-7,271	-1,091	-2,816	-4,492	-29,264
CF from Operations	-5,726	39,257	30,579	28,778	16,194	21,845	33,777	23,144
Others	1,095	-1,525	-5,339	-2,500	11,306	-1,165	-1,063	-742
CF from Operating incl EO	-4,632	37,732	25,239	26,278	27,499	20,680	32,714	22,402
(Inc)/Dec in FA	-991	-292	65	78	149	-1,078	-1,134	-1,192
Free Cash Flow	-5,622	37,439	25,304	26,356	27,648	19,602	31,580	21,210
(Pur)/Sale of Investments	-300	-2,822	-176	1,491	6,817	0	0	0
Others	-552	5,231	4,310	9,820	10,812	1,165	1,063	742
CF from Investments	-1,843	2,117	4,199	11,389	17,778	87	-70	-450
Issue of Shares	0	0	0	63,466	100	0	0	0
Inc/(Dec) in Debt	37,050	-11,362	-10,325	-72,916	-25,393	-17,000	-20,000	-20,000
Interest Paid	-29,691	-30,534	-18,027	-19,427	-11,756	-9,031	-6,360	-4,360
Dividend Paid	0	0	0	0	0	-2,688	-4,732	-6,873
Others	0	0	0	0	-6	0	0	0
CF from Fin. Activity	7,359	-41,896	-28,351	-28,878	-37,054	-28,719	-31,092	-31,233
Inc/Dec of Cash	885	-2,047	1,087	8,789	8,223	-7,952	1,552	-9,281
Opening Balance	2,552	6,575	1,870	3,668	12,457	20,680	12,728	14,280
Closing Balance	3,437	4,529	2,956	12,457	20,680	12,728	14,280	4,999

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NOTES

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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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