

August 5, 2024

## Q1FY25 Result Update

■ Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		ACCUMULATE	
Target Price	681		621	
Sales (Rs. m)	1,07,940	1,20,453	1,07,940	1,20,453
% Chng.	-	-	-	-
EBITDA (Rs. m)	22,583	24,919	22,583	24,919
% Chng.	-	-	-	-
EPS (Rs.)	12.8	14.1	12.8	14.1
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	97,640	96,530	1,07,940	1,20,453
EBITDA (Rs. m)	18,100	20,260	22,583	24,919
Margin (%)	18.5	21.0	20.9	20.7
PAT (Rs. m)	13,020	14,810	16,462	18,173
EPS (Rs.)	10.1	11.5	12.8	14.1
Gr. (%)	6.3	13.7	11.2	10.4
DPS (Rs.)	4.5	9.5	10.5	11.5
Yield (%)	0.7	1.4	1.6	1.7
RoE (%)	36.4	38.8	40.6	40.9
RoCE (%)	41.5	44.0	46.9	47.7
EV/Sales (x)	8.8	8.9	7.9	7.1
EV/EBITDA (x)	47.4	42.4	37.9	34.2
PE (x)	66.6	58.5	52.7	47.7
P/BV (x)	22.8	22.6	20.3	18.8

### Key Data

### MRCO.BO | MRCO IN

52-W High / Low	Rs.691 / Rs.486
Sensex / Nifty	78,759 / 24,056
Market Cap	Rs.870bn/ \$ 10,379m
Shares Outstanding	1,295m
3M Avg. Daily Value	Rs.2297.76m

### Shareholding Pattern (%)

Promoter's	59.34
Foreign	25.54
Domestic Institution	10.09
Public & Others	4.91
Promoter Pledge (Rs bn)	0.13

### Stock Performance (%)

	1M	6M	12M
Absolute	9.2	28.5	16.7
Relative	10.9	17.0	(2.7)

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## Core Portfolio tepid, peaked out margins

### Quick Pointers:

- Volume growth to pick up with uptick in rural demand
- Food and Premium personal care to grow at 20%-25% CAGR, margins to expand. Beardo is aiming at double digit margins in FY25 itself
- Digital first sales expected to exit FY25 at an ARR of INR 550-600 cr.

**MRCO reported inline nos with surprise on GM led by benign input costs & favorable portfolio mix. However we downgrade stock to Hold from Accumulate given 1) Peaked out margin with no major expansion expected in near term 2) Persistent sluggishness in Parachute/Saffola/VAHO (72% of domestic sales) 3) Growth concerns in Bangladesh given recent turmoil and unrest. Innovation funnel remains strong with portfolio diversification and scale up in Foods, D2C portfolio & B2C acquisitions. Beardo is likely to end FY25 with double-digit EBITDA margins, MRCO plans to adopt the same strategy for scaling Digital-first franchises and targets double-digit margins by FY27. We factor in 11.7% sales growth & 10.4% PAT CAGR over FY24-26 We value MRCO at 46x Sep'26 EPS and assign a target price of Rs681 (Rs621 earlier). Downgrade to Hold.**

**Sales up 6.7%, GM expands by 227bps YoY:** Parachute Volume up 4% (PLe: 3.0%). Consol revenue grew by 6.7% YoY to Rs26.4bn. Gross margins expanded by 227bps YoY to 52.3% (PLe: 50.5%). EBITDA grew by 9.1% YoY to Rs6.3bn (PLe:Rs 6.3bn); Margins expanded by 51bps YoY to 23.7% (PLe:23.6%). A&P Spends expanded by 52bps YoY to 9.1% Adj PAT grew by 8.7% YoY to Rs4.7bn (PLe:Rs4.7bn) Bangladesh/South-east Asia/MENA/SA registered growth of 10%/0%/20%/28% CCG with gulf and Egypt continue to fare well

**Concall takeaways:** 1) Rural market seeing some promising trends, while urban was stable 2) premium segment continue to outpace the mass segment while MT gained salience vis-à-vis GT. 3) Mass segment demand is expected to increase from 2HFY25 onwards led by inflation cooling off, govt spending's & favorable monsoon 4) Pricing growth for the sector turned flattish on a YoY basis. Both HPC and Foods witnessed an uptick, although the pickup over the last 6 months has been more pronounced in the former 5) Offtakes remained healthy across key portfolios with more than 90% of the business either gaining or sustaining market share and penetration, both on a MAT basis. 6) volume growth was supplemented by price hikes in the Coconut Oil portfolio, which offset the residual base impact of pricing cuts in the Saffola Oils portfolio. 7) Q1FY25 marked the execution of Phase 1 of Project SETU in six states representing a mix of stronghold and opportunity markets. The initial results have been very promising with direct coverage expansion in urban and rural markets 8) Parachute is expected to see an uptick for rest of the year in view of the visibly encouraging trends in market share, penetration and offtakes. 9) VAHO continue to see demand pressure amidst persistent sluggishness and competitive headwinds in the bottom of the pyramid segment. 10) Edible and crude oil are expected to inch upwards in coming quarters and if it happens than MRCO is likely to hike the prices in its key portfolios.

**Exhibit 1: 1QFY25 Results: Revenues up 6.7%, EBITDA margins expanded 51bps YoY**

Consolidated	1QFY25	1QFY24	YoY gr. (%)	4QFY24	FY25E	FY24	YoY gr. (%)
<b>Net Sales</b>	<b>26,430</b>	<b>24,770</b>	<b>6.7</b>	<b>22,780</b>	<b>1,07,940</b>	<b>96,530</b>	<b>11.8</b>
COGS	12,620	12,390	1.9	11,030	47,480	47,480	-
<i>% of Net Sales</i>	<i>47.7</i>	<i>50.0</i>	<i>-2.3</i>	<i>48.4</i>	<i>44.0</i>	<i>49.2</i>	<i>-5.2</i>
<b>Gross Profit</b>	<b>13,810</b>	<b>12,380</b>	<b>11.6</b>	<b>11,750</b>	<b>53,463</b>	<b>49,050</b>	<b>9.0</b>
<i>% of NS</i>	<i>52.3</i>	<i>50.0</i>	<i>2.3</i>	<i>51.6</i>	<i>49.5</i>	<i>50.8</i>	<i>-1.3</i>
Advt. & Prom.	2,400	2,120	13.2	2,260	10,470	9,520	10.0
<i>% of NS</i>	<i>9.1</i>	<i>8.6</i>	<i>0.5</i>	<i>9.9</i>	<i>9.7</i>	<i>9.9</i>	<i>-0.2</i>
<b>Total Expenses</b>	<b>20,170</b>	<b>19,030</b>	<b>6.0</b>	<b>18,360</b>	<b>85,357</b>	<b>76,270</b>	<b>11.9</b>
<b>EBITDA</b>	<b>6,260</b>	<b>5,740</b>	<b>9.1</b>	<b>4,420</b>	<b>22,583</b>	<b>20,260</b>	<b>11.5</b>
<i>Margins (%)</i>	<i>23.7</i>	<i>23.2</i>	<i>0.5</i>	<i>19.4</i>	<i>20.9</i>	<i>21.0</i>	<i>-0.1</i>
Depreciation	410	360	13.9	410	1,766	1,580	11.8
<b>EBIT</b>	<b>5,850</b>	<b>5,380</b>	<b>8.7</b>	<b>4,010</b>	<b>20,817</b>	<b>18,680</b>	<b>11.4</b>
Interest	170	170	-	170	653	730	(10.5)
Other Income	370	460	(19.6)	150	1,572	1,420	10.7
<b>PBT</b>	<b>6,050</b>	<b>5,670</b>	<b>6.7</b>	<b>3,990</b>	<b>21,736</b>	<b>19,370</b>	<b>12.2</b>
Tax	1,310	1,310	-	790	5,043	4,350	15.9
<i>Effective tax rate (%)</i>	<i>21.7</i>	<i>23.1</i>	<i>-1.5</i>	<i>19.8</i>	<i>23.2</i>	<i>22.5</i>	<i>0.7</i>
<b>Adjusted PAT</b>	<b>4,740</b>	<b>4,360</b>	<b>8.7</b>	<b>3,200</b>	<b>16,462</b>	<b>15,020</b>	<b>9.6</b>

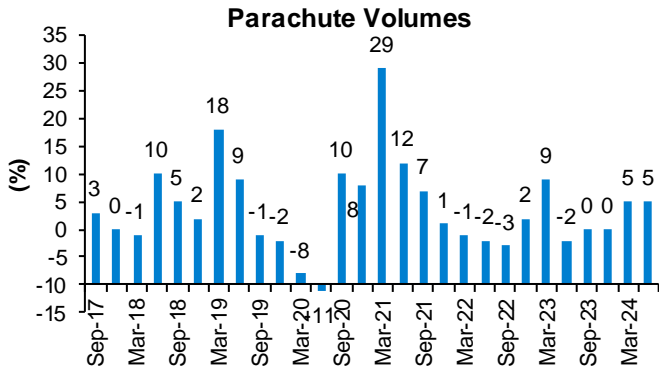
Source: Company, PL

**Exhibit 2: Consolidated Segmental: IBD business delivered 10% CCG led by MENA with 20% and SA with 28% growth**

(Rs m)	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
<b>Net Sales</b>	25,580	24,960	24,700	22,400	24,770	24,760	24,220	22,780	26,430
Domestic	19,210	18,960	18,510	16,830	18,270	18,320	17,930	16,800	19,620
International	6,370	6,000	6,190	5,570	6,500	6,440	6,290	5,980	6,810
<b>Sales Growth %</b>	1.3	3.2	2.6	3.7	-3.2	-0.8	-1.9	1.7	6.7
Domestic	-3.6	1.4	1.9	1.8	-4.9	-3.4	-3.1	-0.2	7.4
International	19.5	9.3	4.9	9.9	2.0	7.3	1.6	7.4	4.8
<b>EBIT</b>	5,540	4,560	4,780	4,200	6,090	5,260	5,360	4,860	6,410
Domestic	3,980	3,290	3,440	3,020	4,280	3,760	3,800	3,390	4,440
International	1,560	1,270	1,340	1,180	1,810	1,500	1,560	1,470	1,970
<b>EBIT Growth %</b>	12.4	4.6	7.9	15.7	9.9	15.4	12.1	15.7	5.3
Domestic	12.4	5.1	11.7	12.7	7.5	14.3	10.5	12.3	3.7
International	12.2	3.3	-0.7	24.2	16.0	18.1	16.4	24.6	8.8
<b>EBIT Margins %</b>	21.7	18.3	19.4	18.8	24.6	21.2	22.1	21.3	24.3
Domestic	20.7	17.4	18.6	17.9	23.4	20.5	21.2	20.2	22.6
International	24.5	21.2	21.6	21.2	27.8	23.3	24.8	24.6	28.9
<b>Capital Employed</b>	27,150	26,380	26,750	30,920	31,970	35,370	37,540	36,400	39,360
Domestic	17,190	17,340	17,200	22,400	18,740	22,540	24,560	24,260	27,080
International	9,960	9,040	9,550	8,520	13,230	12,830	12,980	12,140	12,280
<b>International Sales Growth %</b>									
Bangladesh (46%)	10.0	10.0	9.0	9.0	9.0	2.0	-6.0	8.0	10.0
MENA (15%)	27.0	11.0	13.0	37.0	15.0	34.0	26.0	19.0	20.0
South Africa (8%)	23.0	16.0	13.0	21.0	37.0	23.0	33.0	13.0	28.0
SE Asia (26%)	34.0	10.0	13.0	16.0	5.0	13.0	4.0	0.0	0.0

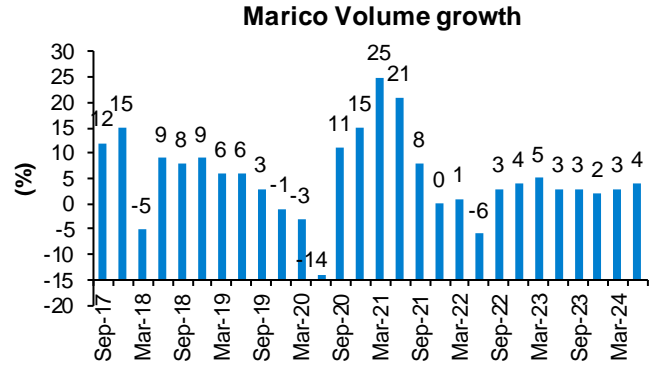
Source: Company, PL

**Exhibit 3: Parachute volumes up 5% YoY**



Source: Company, PL

**Exhibit 4: Domestic volumes up 4% YoY**



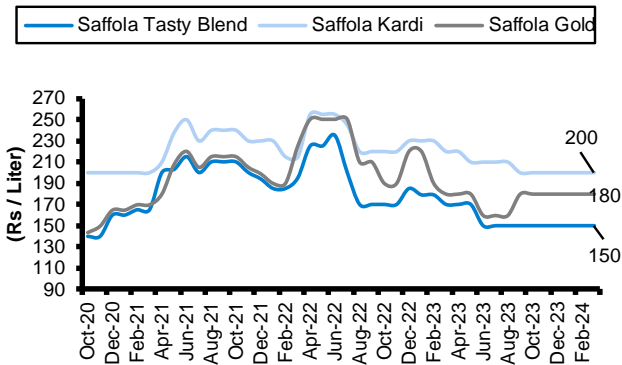
Source: Company, PL

**Exhibit 5: Market share remains strong across brands (ex-VAHO)**

Market Share (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Coconut Oil	62	62	62	62	62	62	62	63	64
Saffola					53	53	53	54	55
Hair Oil VAHO	NA	NA	NA	NA	NA	NA	NA	NA	NA
Livon & Silk and Shine	37	37	28	28	28	27	27	27	27
Hair Creams/Gel	63	62	61	60	57	55	53	50	49
Saffola Oats	55	54	54	53	53	53	52	52	51

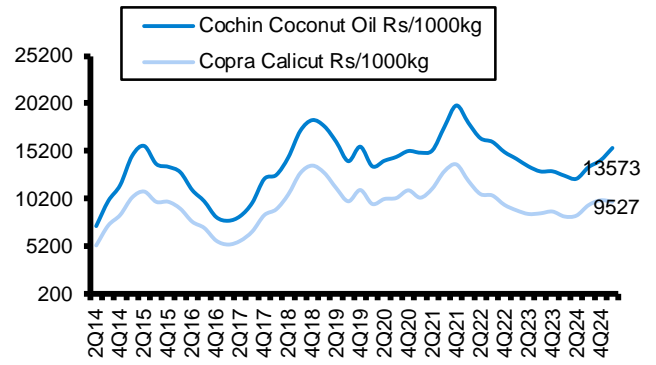
Source: Company, PL

**Exhibit 6: MRCO sees stable edible oil prices in Q1**



Source: Company, PL

**Exhibit 7: Cochin/Calicut Copra prices inching up**



Source: Company, PL

Exhibit 8: Broad based IBD holds steady



Source: Company, PL

Exhibit 9: Core category remain under pressure



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>97,640</b>	<b>96,530</b>	<b>1,07,940</b>	<b>1,20,453</b>
YoY gr. (%)	2.6	(1.1)	11.8	11.6
Cost of Goods Sold	53,510	47,480	54,477	61,569
Gross Profit	44,130	49,050	53,463	58,884
Margin (%)	45.2	50.8	49.5	48.9
Employee Cost	6,530	7,430	8,096	8,974
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>18,100</b>	<b>20,260</b>	<b>22,583</b>	<b>24,919</b>
YoY gr. (%)	7.7	11.9	11.5	10.3
Margin (%)	18.5	21.0	20.9	20.7
Depreciation and Amortization	1,550	1,580	1,766	1,930
<b>EBIT</b>	<b>16,550</b>	<b>18,680</b>	<b>20,817</b>	<b>22,989</b>
Margin (%)	17.0	19.4	19.3	19.1
Net Interest	560	730	653	643
Other Income	1,440	1,420	1,572	1,711
<b>Profit Before Tax</b>	<b>17,430</b>	<b>19,370</b>	<b>21,736</b>	<b>24,056</b>
Margin (%)	17.9	20.1	20.1	20.0
Total Tax	4,210	4,350	5,043	5,629
Effective tax rate (%)	24.2	22.5	23.2	23.4
<b>Profit after tax</b>	<b>13,220</b>	<b>15,020</b>	<b>16,693</b>	<b>18,427</b>
Minority interest	200	210	231	254
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>13,020</b>	<b>14,810</b>	<b>16,462</b>	<b>18,173</b>
YoY gr. (%)	6.3	13.7	11.2	10.4
Margin (%)	13.3	15.3	15.3	15.1
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>13,020</b>	<b>14,810</b>	<b>16,462</b>	<b>18,173</b>
YoY gr. (%)	6.3	13.7	11.2	10.4
Margin (%)	13.3	15.3	15.3	15.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,020	14,810	16,462	18,173
<b>Equity Shares O/s (m)</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>
<b>EPS (Rs)</b>	<b>10.1</b>	<b>11.5</b>	<b>12.8</b>	<b>14.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>17,990</b>	<b>23,565</b>	<b>25,065</b>	<b>26,565</b>
Tangibles	12,070	13,727	15,227	16,727
Intangibles	5,920	9,838	9,838	9,838
<b>Acc: Dep / Amortization</b>	<b>5,900</b>	<b>7,045</b>	<b>8,327</b>	<b>9,721</b>
Tangibles	5,580	6,627	7,761	9,007
Intangibles	320	418	566	714
<b>Net fixed assets</b>	<b>12,090</b>	<b>16,520</b>	<b>16,738</b>	<b>16,844</b>
Tangibles	6,490	7,100	7,466	7,720
Intangibles	5,600	9,420	9,272	9,124
Capital Work In Progress	670	440	500	500
Goodwill	8,620	8,630	8,630	8,629
Non-Current Investments	5,540	4,470	5,972	6,053
Net Deferred tax assets	(320)	(2,110)	(2,597)	(3,139)
Other Non-Current Assets	2,880	3,440	3,750	4,144
<b>Current Assets</b>				
Investments	5,780	2,590	6,476	8,432
Inventories	12,250	13,360	12,857	14,354
Trade receivables	10,150	10,690	7,393	8,250
Cash & Bank Balance	7,580	9,450	8,453	9,711
Other Current Assets	2,290	3,780	2,699	3,011
<b>Total Assets</b>	<b>69,460</b>	<b>74,210</b>	<b>74,195</b>	<b>80,603</b>
<b>Equity</b>				
Equity Share Capital	1,290	1,290	1,290	1,290
Other Equity	36,700	37,030	41,434	44,752
<b>Total Network</b>	<b>37,990</b>	<b>38,320</b>	<b>42,724</b>	<b>46,042</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	20	-	-	-
Provisions	40	10	-	-
Other non current liabilities	200	190	209	230
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	4,730	3,830	3,830	3,830
Trade payables	14,520	15,810	13,915	15,379
Other current liabilities	5,040	4,800	5,302	5,846
<b>Total Equity &amp; Liabilities</b>	<b>69,460</b>	<b>74,210</b>	<b>74,195</b>	<b>80,603</b>

Source: Company Data, PL Research



**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	17,430	19,370	21,736	24,056
Add. Depreciation	1,550	1,580	1,766	1,930
Add. Interest	560	730	653	643
Less Financial Other Income	1,440	1,420	1,572	1,711
Add. Other	3,310	2,370	(3,194)	598
Op. profit before WC changes	22,850	24,050	20,961	27,227
Net Changes-WC	100	1,090	(354)	(2,623)
Direct tax	(4,210)	(4,350)	(5,043)	(5,629)
<b>Net cash from Op. activities</b>	<b>18,740</b>	<b>20,790</b>	<b>15,565</b>	<b>18,976</b>
Capital expenditures	(6,690)	(6,130)	(2,227)	(2,335)
Interest / Dividend Income	-	-	-	-
Others	(3,310)	1,750	(1,730)	-
<b>Net Cash from Inv. activities</b>	<b>(10,000)</b>	<b>(4,380)</b>	<b>(3,957)</b>	<b>(2,335)</b>
Issue of share cap. / premium	(1,890)	(625)	1,604	120
Debt changes	1,300	(920)	-	-
Dividend paid	(5,820)	(12,265)	(13,556)	(14,858)
Interest paid	(560)	(730)	(653)	(643)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(6,970)</b>	<b>(14,540)</b>	<b>(12,605)</b>	<b>(15,381)</b>
<b>Net change in cash</b>	<b>1,770</b>	<b>1,870</b>	<b>(997)</b>	<b>1,259</b>
Free Cash Flow	12,050	14,660	13,338	16,640

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

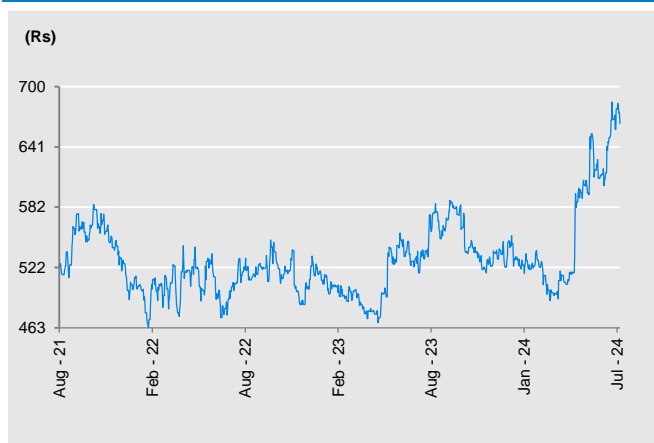
Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Net Revenue</b>	<b>24,760</b>	<b>24,220</b>	<b>22,780</b>	<b>26,430</b>
YoY gr. (%)	(0.8)	(1.9)	1.7	6.7
Raw Material Expenses	12,260	11,800	11,030	12,620
Gross Profit	12,500	12,420	11,750	13,810
Margin (%)	50.5	51.3	51.6	52.3
<b>EBITDA</b>	<b>4,970</b>	<b>5,130</b>	<b>4,420</b>	<b>6,260</b>
YoY gr. (%)	14.8	12.5	12.5	9.1
Margin (%)	20.1	21.2	19.4	23.7
Depreciation / Depletion	390	420	410	410
<b>EBIT</b>	<b>4,580</b>	<b>4,710</b>	<b>4,010</b>	<b>5,850</b>
Margin (%)	18.5	19.4	17.6	22.1
Net Interest	200	190	170	170
Other Income	380	430	150	370
<b>Profit before Tax</b>	<b>4,760</b>	<b>4,950</b>	<b>3,990</b>	<b>6,050</b>
Margin (%)	19.2	20.4	17.5	22.9
Total Tax	1,160	1,090	790	1,310
Effective tax rate (%)	24.4	22.0	19.8	21.7
<b>Profit after Tax</b>	<b>3,600</b>	<b>3,860</b>	<b>3,200</b>	<b>4,740</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,600</b>	<b>3,860</b>	<b>3,200</b>	<b>4,740</b>
YoY gr. (%)	17.3	15.9	4.9	8.7
Margin (%)	14.5	15.9	14.0	17.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,600</b>	<b>3,860</b>	<b>3,200</b>	<b>4,740</b>
YoY gr. (%)	17.3	15.9	4.9	8.7
Margin (%)	14.5	15.9	14.0	17.9
Other Comprehensive Income	(230)	40	(360)	(590)
<b>Total Comprehensive Income</b>	<b>3,370</b>	<b>3,900</b>	<b>2,840</b>	<b>4,150</b>
Avg. Shares O/s (m)	1,291	1,291	1,291	1,291
<b>EPS (Rs)</b>	<b>2.8</b>	<b>3.0</b>	<b>2.5</b>	<b>3.7</b>

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	10.1	11.5	12.8	14.1
CEPS	11.3	12.7	14.1	15.6
BVPS	29.4	29.7	33.1	35.7
FCF	9.3	11.4	10.3	12.9
DPS	4.5	9.5	10.5	11.5
<b>Return Ratio(%)</b>				
RoCE	41.5	44.0	46.9	47.7
ROIC	29.5	30.0	35.1	36.8
RoE	36.4	38.8	40.6	40.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	29	31	21	22
<b>Valuation(x)</b>				
PER	66.6	58.5	52.7	47.7
P/B	22.8	22.6	20.3	18.8
P/CEPS	59.5	52.9	47.6	43.1
EV/EBITDA	47.4	42.4	37.9	34.2
EV/Sales	8.8	8.9	7.9	7.1
Dividend Yield (%)	0.7	1.4	1.6	1.7

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Jul-24	Accumulate	621	615
2	28-May-24	Accumulate	606	603
3	06-May-24	Accumulate	588	530
4	09-Apr-24	Hold	554	510
5	30-Jan-24	Hold	559	516
6	08-Jan-24	Hold	556	524
7	30-Oct-23	Hold	556	532
8	07-Oct-23	Hold	581	537

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Reduce	2,605	2,974
2	Avenue Supermarts	Accumulate	5,104	5,027
3	Britannia Industries	Hold	5,315	5,547
4	Colgate Palmolive	Reduce	2,743	3,210
5	Dabur India	Hold	621	644
6	Emami	Hold	831	824
7	Hindustan Unilever	Hold	2,698	2,766
8	ITC	Accumulate	519	494
9	Jubilant FoodWorks	UR	-	570
10	Kansai Nerolac Paints	Reduce	284	307
11	Marico	Accumulate	621	615
12	Metro Brands	Hold	1,190	1,218
13	Mold-tek Packaging	Accumulate	853	797
14	Nestle India	Accumulate	2,746	2,481
15	Pidilite Industries	Accumulate	3,141	3,100
16	Restaurant Brands Asia	Accumulate	134	110
17	Titan Company	Accumulate	3,958	3,462
18	Westlife Foodworld	Hold	791	833

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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