

## Decent Q2 ex-Agri; cigarette volumes grew by ~6%

**About the stock:** ITC is diversified consumption play with presence in businesses such as cigarettes, FMCG, Agri and Paperboard, Paper & Packaging (PPP) in India. Its strategy hinges towards utilising funds generated from cash cow cigarette business in improving the growth of FMCG and other businesses. The company demerged and separately listed hotel business, enhancing shareholders value with better growth visibility.

**Q2FY26 performance:** ITC's net revenues declined by 3.4% YoY to Rs.18022cr in Q2FY26. Growth was impacted by decline in agri-business revenues which witnessed headwinds due to US tariff situation and also came off a high base. Gross margins witnessed 299bps YoY improvement to 54.6% due to favourable input price environment and portfolio mix. EBITDA margins improved 186bps YoY to 34.7%. Adjusted PAT witnessed 5.2% YoY growth to Rs.5115.2cr

### Investment Rationale:

- **Cigarette business volumes grew by ~6%:** ITC's cigarette business net revenues grew by 5.7% YoY to Rs7,362.1cr in Q2FY26. The cigarette sales volume grew by ~6%, ahead of our expectation 5%. No increase in tax rate on cigarettes and differentiated portfolio aiding ITC to remain competitive against illicit cigarettes and will help maintaining steady volume growth momentum. Moderation in leaf tobacco procurement prices is likely to reduce stress on the profitability of the cigarette business in the coming quarters.
- **FMCG business – resilient performance:** Non-cigarette FMCG grew by 6.9% YoY to Rs5,964.4cr (ex-notebook grew by 8.0%). This is despite GST led disruption at the fag end of the quarter. Staples, Biscuits, Dairy, Premium Personal Wash, Homecare and Agarbattis delivered better performance. Digital First and Organic portfolio comprising of newer acquisitions such as Meatigo, Mother Sparsh and 24 Organic mantras are having ARR of Rs.1100cr. The business EBITDA margins improved sequentially by 50bps to 10.0%. We expect FMCG business growth to improve in H2FY26 as the company is likely to reap the benefits of GST rate cuts implemented in Q2FY26. Benign input prices, better mix and operating leverage would help EBITDA margins to further improve in H2FY26.
- **Invest in businesses to improve growth prospects in medium to long run:** ITC has maintained its stance to invest Rs 20,000 crore over the next five years to improve growth prospects of each sector. The focus is not expanding the business through organic and inorganic initiatives but also develop strong back-end support by developing diversified and localised manufacturing and supply networks to mitigate the risk of domestic and external challenges. The company has strong cash flows of Rs28,000 cr+ cash and cash equivalent to support its strategic investment plans.

### Rating and Target Price

We believe FMCG business EBITDA margins improving to low-to-mid teens and stark recovery in the performance of paperboard, paper and packaging business will key for ITC earnings to get back in double digit trajectory in the coming years. Stock continues to trade at discounted valuation of 21x and 19x its FY27E and FY28E. **We recommend Buy with a SOTP price target of Rs505.**

### Key Financial Summary

Key Financials (₹ crore)	FY23	FY24	FY25	2 year CAGR (FY23-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Revenues	66043.3	65440.8	69323.5	2.5	76177.0	85090.9	94360.7	10.8
EBIDTA	23945.5	24478.6	24024.8	0.2	26674.3	30312.7	34007.5	12.3
EBIDTA Margins(%)	36.3	37.4	34.7		35.0	35.6	36.0	
Adjusted PAT	18699.7	20429.8	19701.2	2.6	21856.7	24503.1	27265.3	11.4
EPS (Rs.)	15.1	16.3	15.7		17.5	19.6	21.8	
PE (x)	27.1	24.8	25.7		23.2	20.7	18.6	
EV to EBITDA (x)	20.4	20.2	20.5		18.4	16.1	14.3	
Price to book (x)	7.4	7.0	7.5		7.0	6.5	5.9	
RoE (%)	29.1	29.2	49.4		31.2	32.6	33.2	
RoCE (%)	32.6	30.8	31.3		35.2	37.5	38.5	

Source: Company, ICICI Direct Research



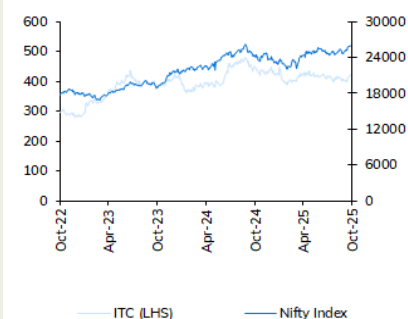
### Particulars

Particular	Amount
Market Capitalisation (₹ crore)	533101
Debt (FY25) - ₹ crore	1656
Cash (FY25) - ₹ crore	18470
EV (Rs crore)	516286
52 week H/L (₹)	472 / 392
Equity capital (₹ crore)	1251.4
Face value (₹)	1

### Shareholding pattern

	Dec-24	Mar-25	Jun-25	Sep-25
Promoters	0.0	0.0	0.0	0.0
FII	40.2	39.9	38.0	37.4
DII	44.9	45.2	45.2	47.4
Others	14.9	14.9	16.8	15.2

### Price Chart



### Key risks

- Sustained inflation in key input prices to put FMCG margin under stress.
- Tax rate hike on cigarettes in the upcoming GST meet.
- Export restrictions on agri commodities will affect Agri business.

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## Q2FY26 – Key Performance Highlights

- ITC's net revenues (including other operating income) declined by 3.4% YoY to Rs.18,021.9cr impacted by Agri-business which witnessed decline due to high base effect and uncertainties related to US tariff. Ex-Agri business, revenues witnessed 9% YoY growth.
- Cigarette business volumes grew by ~6% YoY in Q2FY26 and revenue grew by 6.7% YoY to Rs.8,722.8cr. Inflation in leaf tobacco sustained. Hence, PBIT margins declined by 135bps to 60.1% for the quarter.
- Non-cigarette FMCG business revenues grew by 6.9% YoY (8% YoY Ex-notebooks) to Rs.5,964.4cr driven by staples such as Staples, dairy and premium personal products. Notebooks continue to operate in deflationary conditions (low priced-paper imports). PBIT margins witnessed decline of 54bps YoY to 7.4% in Q2FY26.
- Paperboards, Paper & Packaging Business witnessed mid-single digit growth of 5% YoY in Q2FY26 to Rs.2,219.9cr driven by volumes. Higher domestic wood prices coupled with muted realisations impacted PBIT margins which witnessed 286bps YoY decline to 8.6%.
- Agri-business revenues recorded 31% YoY decline in revenues to 3,976.2cr majorly due to impact of high base and uncertainty of US tariff situation. Better leaf tobacco exports improved PBIT margins by 368bps to 11.5% in Q2FY26.
- Gross margins improved by 299bps YoY to 54.6% (+558bps QoQ) due to favourable input costs and mix as FMCG-Other business contribution improving by ~300bps to total revenues. As a result, EBITDA margins improved by 186bps YoY to 34.7%.
- Overall EBITDA grew by 2.1% YoY to Rs.6,251.7cr and adjusted PAT recorded 5.2% YoY growth to Rs.5115.2cr.

## H1FY26 – Key Performance Highlights

- ITC's net revenues recorded 7.6% YoY growth in revenues to Rs.37,770.9cr in H1FY26.
- Gross margins in H1FY26 witnessed 352bps YoY decline to 51.7% due to unfavourable mix of Agribusiness in the revenues. EBITDA margins declined by 164bps YoY to 33.1%
- Overall EBITDA witnessed 2.5% YoY growth to Rs.12,513cr. Adjusted PAT for H1FY26 recorded 3.6% YoY growth to Rs.10,028cr.

## Q2FY26 – Business highlights

- **FMCG-Others reported better performance despite GST related transitory issues**  
FMCG-others reported 6.9% YoY growth in revenues to Rs.5,964.4cr in Q2FY26. Ex-notebook the revenues witnessed 8% YoY growth as notebook continued to operate in a deflationary environment. Lower priced imports coupled by heightened competition from local players continued to impact notebook business. Staples, dairy, agarbatti and premium personal wash continued to perform driving growth of the portfolio. Digital First and Organic portfolio comprising of newer acquisitions such as Meatigo, Mother Sparsh and 24 Organic mantras are having ARR of Rs.1100cr. New-age channels (q-comm, e-comm and modern trade) witnessed robust growth through better assortments and executions. Raw material prices started to stabilise during the quarter but remained elevated on YoY basis. Business EBITDA margins improved by 60bps QoQ to 10%. We expect stabilisation in the key input prices and better mix will help consistent improvement in the EBITDA margins in the quarters ahead.

- **FMCG-Cigarettes – steady volume growth continues**

Cigarette business revenues grew by 6.7% YoY to Rs.8,722.8cr (net revenues grew by 6% YoY to Rs.6,967.6cr) driven by ~6% YoY volume growth. Differentiated variants and premium portfolio continued to perform well. Consumption of high-cost leaf inventory impacted the margins which witnessed 135bps YoY decline to 60.1% in Q2FY26. Improved portfolio mix helped partially offset the margin pressure on the portfolio. Moderation in Leaf tobacco procurement has been witnessed in current crop cycle indicating lower input cost environment ahead. Volume recovery in the cigarettes has been witnessed also due to stability in taxes and strict enforcement to control illicit trade leading to uptick in revenues.

- **Agri Business – Performance impacted by high base and uncertain tariff situation**

Agri-business revenues recorded 31% YoY decline in revenues to 3,976.2cr majorly due to impact of high base and uncertainty of US tariff situation. Leaf tobacco exports posted strong growth driven by robust crop development, superior product quality and strong customer relationships. Value added exports were impacted during the quarter due to delayed or cancellation of orders from customers due to uncertainty in the US tariff situation. As a result of higher growth in leaf tobacco, PBIT margins witnessed improvement of 368bps YoY to 11.5% in Q2FY26.

- **Paperboards, Paper & Packaging – Continues to be impacted by unfavourable operating environment**

The paperboards, paper and packaging business continued to be impacted by the influx of lower priced global woods, higher domestic wood prices and muted realisations. Revenues witnessed 5% YoY growth to Rs.2,219.9cr driven by volumes. Performance in speciality papers remained robust. Recent policies by the government are seen as supportive measures to mitigate the near-term challenges. Minimum import price has been imposed on Virgin Multi-Layer paperboard and also anti-dumping duties have been levied on supplies originating from China and Chile. The business continues to focus on accelerating plantations across the core areas, developing new areas, collaboration with other wood-based industries and new plantation systems. Packaging and printing business has witnessed sequential uptick in domestic demand. Sustainable paperboard/packaging solutions portfolio continued to report strong growth and has grown over 2.6x over last 4 years. Higher wood prices and lower realisations led to 286bps YoY decline in PBIT margins to 8.6%.

- **Food-tech Business**

The business is part of the ITC Next strategy which leverages the expertise of the company to expand its presence in the online food services segment. Segment witnessed broad based growth with healthy total contract value signings. The food tech platform has scaled over 60 cloud kitchens across 5 cities and is being scaled up across India. 7 new kitchens were added during the quarter.

## Revision in earnings estimates

We have broadly maintained our earnings estimates for FY26 and FY27. We expect FMCG business performance to recover in the second half of the year reaping the benefits of GST 2.0 rate cut. We have introduced FY28 earnings estimates through this note.

### Exhibit 1: Change in head-line estimates

(₹ crore)	FY26E			FY27E		
	Old	New	% Chg	Old	New	% Chg
Net Revenues	77843.0	76177.0	-2.1	86251.9	85090.9	-1.3
EBIDTA	27106.3	26674.3	-1.6	30565.5	30312.7	-0.8
EBIDTA margin (%)	34.8	35.0	(70)bps	35.4	35.6	(60)bps
PAT	21990.5	21856.7	-0.6	24533.8	24503.1	-0.1
EPS (Rs.)	17.6	17.5	-0.6	19.6	19.6	-0.1

Source: Company, ICICI Direct Research

### Exhibit 2: Key Operating assumptions

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Cigarette business net revenues	30596.6	32631.3	35016.6	37639.1	39998.3
y-o-y%	8.5	6.7	7.3	7.5	6.3
Cigarette business volume growth (%)	3.0	4.5	4.7	5.0	5.0
Non-cigarette FMCG business	20922.5	21981.6	24399.5	28547.5	33115.1
y-o-y%	9.6	5.1	11.0	17.0	16.0
Agri business	15791.8	19753.8	22716.9	24988.6	27487.4
y-o-y%	-13.1	25.1	15.0	10.0	10.0
PPP business	8344.4	8422.8	8928.2	10178.1	11806.6
y-o-y%	-8.1	0.9	6.0	14.0	16.0

Source: Company, ICICI Direct Research

### Exhibit 3: SOTP Valuation

Particulars	PAT	EPS	P/E (x)	Value/share
Cigarette business	18759.7	15.0	25.0	375
FMCG -others	1996.4	1.6	45.0	72
Agri business	1667.0	1.3	12.0	16
PPP Business	1067.5	0.9	12.0	10

#### ITC Hotels (Demerged entity)

Current market cap (Rs. Cr)	46671.0	
ITC's post merger holding in the hotel biz	0.4	
Value after adjusting for ITC holding (Rs cr.)	28002.6	
Holding company discount	0.3	
Value after adjusting for holding company discount	21002.0	17
Cash and Investments (Rs cr.)	18470.3	15
Sum of the Parts (SoTP) Valuation		504.5

Source: Company, ICICI Direct Research

**Exhibit 4: Q2FY26 Standalone result snapshot**

Particulars	Q2FY26	Q2FY25	y-o-y (%)	Q1FY26	q-o-q (%)
<b>Gross revenue</b>	<b>19381.7</b>	<b>19858.8</b>	<b>-2.4</b>	<b>21059.0</b>	<b>-8.0</b>
Excise duty	1360.7	1209.6	12.5	1309.1	3.9
Net revenue	18021.0	18649.1	-3.4	19749.9	-8.8
Total expenditure	11769.2	12525.8	-6.0	13488.6	-12.7
<b>Operating Profit</b>	<b>6251.7</b>	<b>6123.3</b>	<b>2.1</b>	<b>6261.3</b>	<b>-0.2</b>
Other income	898.0	873.7	2.8	662.1	35.6
Interest	15.88	14.8	7.4	12.9	22.8
Depreciation	370.7	444.3	-16.6	365.3	1.5
Profit before tax	6763.1	6537.9	3.4	6545.1	3.3
Tax	1647.9	1675.2	-1.6	1632.8	0.9
<b>Adjusted PAT</b>	<b>5115.2</b>	<b>4862.7</b>	<b>5.2</b>	<b>4912.4</b>	<b>4.1</b>
Exceptional item	64.3	-1.2	-	0.0	-
<b>Reported PAT</b>	<b>5179.5</b>	<b>4861.5</b>	<b>6.5</b>	<b>4912.4</b>	<b>5.4</b>
<b>EPS (Rs.)</b>	<b>4.1</b>	<b>3.9</b>	<b>5.2</b>	<b>3.9</b>	<b>4.1</b>
Margins	Q2FY26	Q2FY25	bps	Q1FY26	bps
GPM (%)	54.6	51.6	299	49.0	558
OPM (%)	34.7	32.8	186	31.7	299
NPM (%)	28.4	26.1	231	24.9	351
Tax rate (%)	24.4	25.6	-126	24.9	-58

Source: Company, ICICI Direct Research

**Exhibit 5: Q2FY26 business-wise revenue performance**

Particulars	Q2FY26	Q2FY25	y-o-y (%)	Q1FY26	q-o-q (%)
FMCG - cigarettes	8722.8	8177.3	6.7	8520.0	2.4
FMCG - others	5964.4	5577.3	6.9	5777.0	3.2
Others	75.3	37.1	103.0	68.0	10.7
Agri	3976.2	5780.8	-31.2	9685.0	-58.9
Paperboard, Paper and Packaging	2219.9	2114.1	5.0	2115.8	4.9
<b>Total</b>	<b>20958.7</b>	<b>21686.6</b>	<b>-3.4</b>	<b>26165.9</b>	<b>-19.9</b>
Less: Inter segment sales	1810.4	2017.3	-10.3	5254.9	-65.5
<b>Gross Sales</b>	<b>19148.4</b>	<b>19669.3</b>	<b>-2.6</b>	<b>20911.0</b>	<b>-8.4</b>

Source: Company, ICICI Direct Research

**Exhibit 6: Q2FY26 business-wise PBIT performance**

Businesses	PBIT (₹ crore)			Margins (%)		
	Q2FY26	Q2FY25	YoY %	Q2FY26	Q2FY25	Chg in bps
FMCG - cigarettes	5240.7	5023.4	4.3	60.1	61.4	-135
FMCG - others	440.4	441.8	-0.3	7.4	7.9	-54
Others	-7.1	13.3	-153.4	-9.4	35.9	-4537
Agri	459.1	454.7	1.0	11.5	7.9	368
PPP	191.0	242.5	-21.2	8.6	11.5	-286
<b>Total</b>	<b>6324.0</b>	<b>6175.7</b>	<b>2.4</b>	<b>30.2</b>	<b>28.5</b>	<b>170</b>

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 7: Profit and loss statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Net Revenues	65440.8	69323.5	76177.0	85090.9	94360.7
Growth (%)	-0.9	5.9	9.9	11.7	10.9
Raw Material Expenses	26982.1	31735.8	34660.5	38163.3	42226.4
Gross Profit	38458.7	37587.7	41516.4	46927.6	52134.3
Gross Profit Margins (%)	58.8	54.2	54.5	55.2	55.3
Employee Expenses	3732.2	3416.7	3758.4	4021.5	4303.0
Other Expenditure	10247.9	10146.1	11083.7	12593.5	13823.8
Total Operating Expenditure	40962.2	45298.7	49502.7	54778.2	60353.3
EBITDA	24478.6	24024.8	26674.3	30312.7	34007.5
Growth (%)	2.2	-1.9	11.0	13.6	12.2
Interest	45.8	36.4	42.7	40.0	40.0
Depreciation	1647.8	1441.9	1449.2	1613.3	1769.6
Other Income	3538.3	3454.3	3882.2	4011.4	4238.5
PBT before Exceptional Items	26323.3	26000.9	29064.7	32670.8	36436.4
Less: Exceptional Items	-7.6	14921.9	0.0	0.0	0.0
PBT after Exceptional Items	26315.8	40922.8	29064.7	32670.8	36436.4
Total Tax	5893.5	6299.7	7208.1	8167.7	9171.0
PAT before MI	20422.3	34623.1	21856.7	24503.1	27265.3
Adjusted PAT	20429.8	19701.2	21856.7	24503.1	27265.3
Growth (%)	9.3	-3.6	10.9	12.1	11.3
EPS (Adjusted)	16.4	27.7	17.5	19.6	21.8

Source: Company, ICICI Direct Research

### Exhibit 9: Balance sheet

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Equity Capital	1248.5	1251.4	1251.4	1251.4	1251.4
Reserve and Surplus	70984.8	66648.7	70985.7	76717.6	85211.8
Total Shareholders funds	72233.3	67900.1	72237.1	77969.0	86463.2
Total Debt	2081.2	1655.8	1205.3	1205.3	1205.3
Deferred Tax Liability	2083.7	2556.4	2633.0	2712.0	2793.4
Long-Term Provisions	221.5	225.2	236.5	248.3	260.7
Source of Funds	76619.6	72337.5	76312.0	82134.7	90722.7
Gross Block - Fixed Assets	33455.6	27199.2	30767.0	33767.0	37017.0
Accumulated Depreciation	11067.1	10353.8	11802.9	13416.3	15185.9
Net Block	22388.6	16845.4	18964.0	20350.7	21831.1
Capital WIP	1087.0	1067.8	1000.0	1250.0	1250.0
Right to use assets	721.7	541.9	552.7	563.8	575.0
Fixed Assets	24197.3	18455.0	20516.7	22164.4	23656.1
Goodwill & Other intangible assets	2632.9	2601.2	2679.3	2759.7	2842.4
Investments	22821.9	20701.2	21500.0	21500.0	21500.0
Other non-Current Assets					
Inventory	12631.5	15061.0	15652.8	17484.4	19389.2
Debtors	3311.5	3910.8	4174.1	4662.5	5170.5
Current Investments	11916.9	15285.9	15750.0	17000.0	19000.0
Other Current Assets	3597.9	4806.8	5047.1	5299.5	5564.4
Cash	197.6	222.1	306.4	1578.9	3118.3
Bank balance	6020.1	2962.3	3800.0	4200.0	6500.0
Total Current Assets	37675.4	42248.9	44730.4	50225.3	58742.4
Creditors	4489.8	4489.8	5217.6	5828.1	6463.1
Provisions	68.7	46.5	51.2	56.3	61.9
Other Current Liabilities	6149.8	7132.5	7845.7	8630.3	9493.3
Total Current Liabilities	10708.0	11668.8	13114.5	14514.7	16018.3
Net Current Assets	26967.4	30580.1	31615.9	35710.6	42724.1
Application of Funds	76619.6	72337.5	76311.9	82134.7	90722.6

Source: Company, ICICI Direct Research

### Exhibit 8: Cash flow statement

₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
Profit/(Loss) after taxation	20437.4	19701.2	21856.7	24503.1	27265.3
Add: Depreciation & Amort.	1647.8	1441.9	1449.2	1613.3	1769.6
Net Increase in Current Assets	298.3	-4237.7	-1095.4	-2572.4	-2677.7
Net Increase in Current Liabilities	70.9	960.8	1445.7	1400.2	1503.6
Others	38.2	36.4	42.6	40.0	40.0
CF from Operating activities	22492.6	17902.5	23698.7	24984.2	27900.8
Investments	-4413.9	1809.5	-2100.6	-1650.0	-4300.0
(Purchase)/Sale of Fixed Assets	-2607.4	4332.1	-3588.9	-3341.4	-3344.1
Others	0.0	0.0	0.0	0.0	0.0
CF from Investing activities	-7021.2	6141.5	-5689.5	-4991.4	-7644.1
(inc)/Dec in Loan	-126.7	-425.4	-450.5	0.0	0.0
Change in equity & reserves	1376.1	-5888.9	0.0	0.0	0.0
Dividend paid	-17166.5	-18145.4	-17519.7	-18771.2	-18771.2
Interest paid	-45.8	-36.4	-42.7	-40.0	-40.0
Other	482.2	476.5	88.0	90.8	93.8
CF from Financing activities	-15480.6	-24019.6	-17924.9	-18720.3	-18717.4
Net Cash Flow	-9.2	24.4	84.4	1272.5	1539.4
Cash and Cash Equivalent	206.9	197.6	222.1	306.4	1578.9
Cash	197.6	222.1	306.4	1578.9	3118.3
Free Cash Flow	19885.2	22234.5	20109.8	21642.8	24556.8

Source: Company, ICICI Direct Research

### Exhibit 10: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E	FY28E
<b>Per share data (I)</b>					
Reported EPS	16.4	27.7	17.5	19.6	21.8
Cash EPS	17.7	16.9	18.6	20.9	23.2
BV per share	57.9	54.3	57.7	62.3	69.1
Dividend per share	13.8	14.5	14.0	15.0	15.0
<b>Operating Ratios (%)</b>					
Gross Profit Margins	58.8	54.2	54.5	55.2	55.3
OPM	37.4	34.7	35.0	35.6	36.0
PAT Margins	31.2	28.4	28.7	28.8	28.9
Cash Conversion Cycle	63.9	76.2	70.0	70.0	70.0
Asset Turnover	0.9	1.0	1.0	1.0	1.0
<b>Return Ratios (%)</b>					
RoE	29.2	49.4	31.2	32.6	33.2
RoCE	30.8	31.3	35.2	37.5	38.5
<b>Valuation Ratios (x)</b>					
P/E	24.8	25.7	23.2	20.7	18.6
EV / EBITDA	20.2	20.5	18.4	16.1	14.3
EV / Net Sales	7.7	7.3	6.6	5.9	5.3
Market Cap / Sales	7.7	7.3	6.7	6.0	5.4
Price to Book Value	7.0	7.5	7.0	6.5	5.9
<b>Solvency Ratios</b>					
Debt / EBITDA	0.1	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.6	3.4	3.5	3.7
Inventory days	70.5	79.3	75.0	75.0	75.0
Debtor days	18.5	20.6	20.0	20.0	20.0
Creditor days	25.0	23.6	25.0	25.0	25.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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