

## Unique e-com player with untapped growth potential

**About the Company:** Incorporated in 2012, FSN E-Commerce Ventures, more commonly known as Nykaa, is a consumer technology platform, delivering a content-led, lifestyle retail experience to consumers through its diverse portfolio of beauty, personal care & fashion products including their own brand products.

- The company boasts of 256,149 SKUs from 2644 brands in beauty & personal care segment and around 2.8 million SKUs across 1,434 brands in the fashion segment
- GMV - 90% is from online platform; 80 physical outlets in operation till date

### Key triggers/Highlights:

- Nykaa is the largest specialty beauty and personal care platform in India in terms of value of products sold in FY21 and one of the fastest growing fashion platforms in India based on growth in GMV
- The company has the highest average order value (AOV) among leading online beauty and personal care platforms in India. The company carries a large number of leading luxury and prestige beauty and personal care brands making it the customer's retail destination of choice in India
- It is a capital efficient business with strong growth and profitability. Its capital turnover ratio improved from 3.1x in FY19 to 4.2x in FY21
- The company values its brand relationships and has a team of brand managers who work closely with brands to strategise and execute growth and brand building strategies

**What should investors do?** FSN clocked EBITDA margins of 6.6% in FY21 with RoCE at 12.9%. At the upper end of the price band it is valued at 22x P/S on FY21.

- We assign an **UNRATED** rating to the IPO

### Key risk & concerns

- Failure to retain or attract new brands, distributors and sellers
- Dependence on key external brands, sellers & suppliers
- Intense competition in the online space



### IPO Details

#### Issue Details

Issue Opens	28th October 2021
Issue Closes	1st November 2021
Issue Size*	₹ 5352 crore
Fresh Issue	₹ 630 crore
Offer for Sale	₹ 4722 crore
Price Band	₹ 1085-1125
Nos of shares on offer	4.76 crore
QIB (%)	75
Non Institutional Share (%)	15
Retail (%)	10
Market lot	12
Listing market Cap@ upper band	₹ 53204 crore

### Shareholding pattern

	Pre-Issue	Post-Issue
Promoter Group	54.2	52.6
Public	45.8	47.5

### Objects of issue

Objects of the Issue	₹ crore
Set up of new retail stores of FSN brands	42
Capex for new ware house	114
Repayment of Debt	156
Brand building activities	234
General corporate purpose	84

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### Key Financial Summary

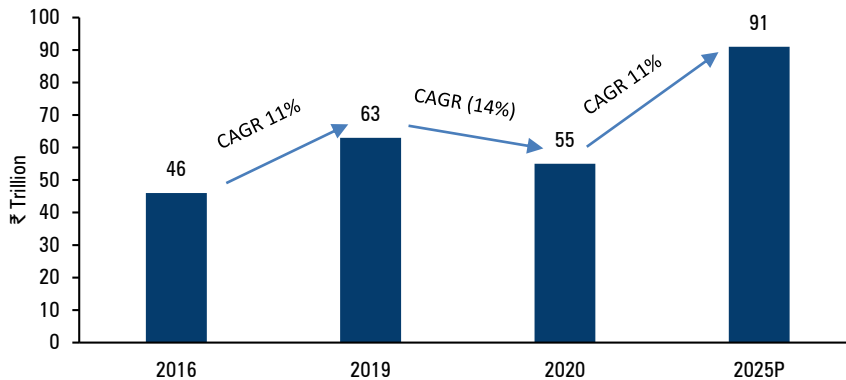
₹ crore	FY19	FY20	FY21	CAGR (FY19-21)
Total Revenues	1111.4	1767.5	2440.9	48.2
EBITDA	20.5	81.1	161.4	180.5
EBITDA Margins (%)	1.8	4.6	6.6	
PAT	-24.5	-16.3	61.8	NM
EPS (₹)	-0.5	-0.4	1.3	
P / Sales	47.9	30.1	21.8	
RoE (%)	-10.6	-5.2	12.6	
RoCE (%)	-1.0	4.3	12.9	

Source: RHP, ICICI Direct Research

## Industry background

India's retail market was estimated at ₹ 55 trillion in 2020, reflecting a CAGR of 5% over the last four years. This growth was enabled by the rising middle class, soaring income levels, increasing demand from Tier III, IV cities and rural markets, rise in youth spending, improvement in infrastructure and the entry of new Indian and global brands across product categories. The discretionary portion of the retail market was estimated at ₹ 21 trillion in 2019 and is expected to reach ~₹ 31 trillion by 2025. Fashion and BPC combined accounted for 35% of the discretionary retail space in India in 2020.

Exhibit 1: 2016-25P India's retail market

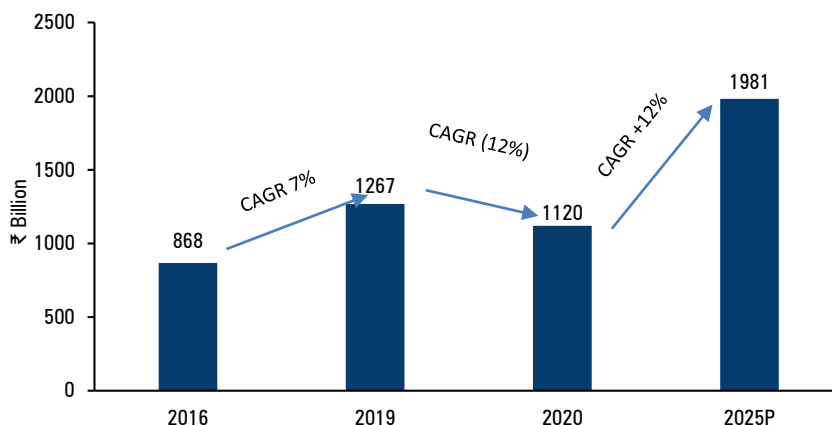


Source: RHP, Crisil Research, ICICI Direct Research

## Beauty, personal care, fashion market

The beauty and personal care market in India was estimated at ₹ 1,267 billion in 2019, growing at a CAGR of 13% in the last three years. Though the market fell to ₹ 1,120 billion in 2020 as a result of reduced spending during the first Covid-19 wave, it is projected to grow at a CAGR of 12% to ₹ 1,981 billion in 2025, implying a CAGR of 7.7% from pre Covid-19 market in 2019. Similar to the overall retail space, India BPC is heavily dominated by the unorganised channel, which primarily includes local grocery shops and departmental stores. With Indian consumers becoming more evolved in their BPC shopping habits, the share of the unorganised BPC market had reduced to 72% in 2020 from 77% in 2016.

Exhibit 2: 2016-25P beauty & personal care market



Source: RHP, Crisil Research, ICICI Direct Research

## Growth in BPC Spend by Youth

Consumers in the 25-35 years age group are the most active BPC buyers. They are also more inclined to buy prestige products. The buying behaviour of these consumers is different from that of a traditional Indian shopper. They have a relatively sophisticated make-up and skin care regime and tend to buy based on the latest trends and are open to experimenting with newer product categories. They also develop an emotional connection with the brand and prefer brands with organic ingredients. They have the paying capacity and awareness to consistently demonstrate this behaviour and, hence, have a strong preference for a personalised shopping experience.

## Increasing BPC Spend from Non-Metro Cities

There has been an increase in aspirational spending on BPC products especially in non-metro cities enabled by rising disposable income, aided by an increasing female workforce participation, increasing popularity and growing influence of social media, and lifestyle changes. BPC spending from Tier 2+ cities are projected to grow faster than Metro and Tier 1 cities as a large population base increases their per capita BPC spend. Tier 1 consumers are expected to increase their spend on prestige products.

## Rise in spend on specialised BPC Categories

The generics category of BPC includes products across oral care, hair care and bath and shower, addressing basic consumer needs. Specialised category of the BPC market has been growing significantly faster than the generic category. Specialised category includes products addressing latent consumer needs and comprising discretionary and evolved sub-categories like make up, fragrances, men's grooming, sexual wellness and women hygiene. The growth in the specialised category was driven by increase in disposable income, increased spending and decision-making power for women, increasing popularity of global brands and trends coupled with a culture shift in Metro and Tier 1 cities. Particularly for the younger generation of consumers, the proliferation of social media and beauty-focused influencers is leading to greater awareness of specialised products and trends, thus driving increased purchase frequency. The desire to present one's best appearance on social media and among peers has led to a more sophisticated use of beauty products.

## Emergence of sizeable prestige BPC Segment

Prestige BPC segment refers to the BPC products sold by brands positioning themselves in the non-mass category. In recent years, aided by increased disposable income, rise in aspirational BPC buying and improved access, there has been an increased proclivity towards prestige brands. The prestige segment has grown at a much faster rate than the mass segment and overall BPC market. This segment has witnessed the entry of multiple national and international brands with unique value proposition, such as organic ingredients, which is adding to its rapid growth.

## Rise in popularity of online content-led discovery

Online content has become the primary lever of BPC purchase decisions, by effectively facilitating discovery and understanding of BPC products and brands. This is providing a significant push to the market as the Generation Z and Millennial consumers, the most active BPC buyers, are also the active consumers of online content on social media platforms. The live e-commerce market, comprising influencers, merchants and key opinion leaders selling directly to consumers on the platform via video live streaming, is likely to become an important enabler of discovery in the BPC category.

## Growth of Men's Segment

Spending on BPC by men was significantly lower than that of women. However, in recent years, men have become more aware and conscious of their looks and hygiene and have demonstrated a keen interest in BPC categories (beyond shaving) like shower gels, face wash and body lotions. From the supply side as well, a number of brands focused on men have come up. Digital media is also playing a key role with influencers normalising the use of these different products and categories. As a result, BPC spend by men in India is projected to continue growing faster than the market.

## India online beauty and personal care market

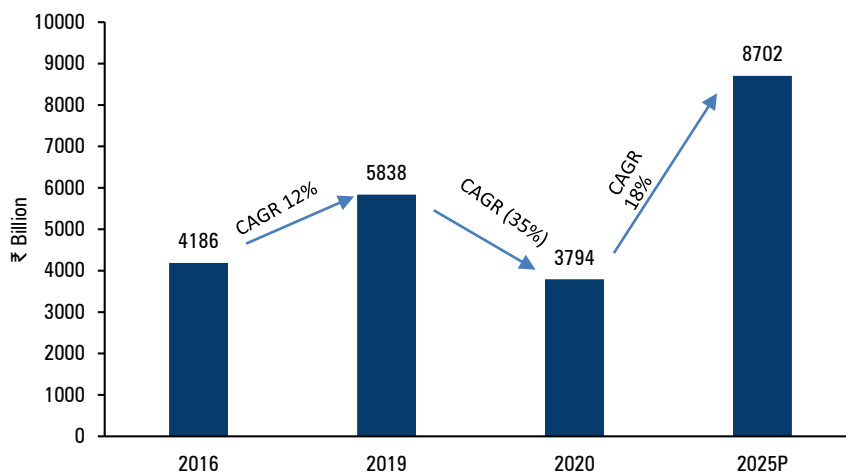
The online beauty and personal care market in India has grown at promising 60% CAGR in the last four years, penetrating 8% of the India beauty and personal care market in 2020. Online BPC retail platforms are effectively resolving challenges faced by both consumers and brands with the help of superior application of technology, efficient supply chain and quality control, access to a wider selection of products and brands including niche luxury brands, original content and advice from experts, door-step deliveries and wider geographic reach. Online channel accounted for 2% of the India BPC market in 2016. Following this, the sector grew at a strong 71% CAGR over the next three years to penetrate 6% of the BPC market in 2019, at ₹ 70 billion. The sector further grew at 30% from 2019 to 2020 to ₹ 91 billion. Online channels accounted for ~8-10% of the overall BPC market in FY21 and the five months ended August 31, 2021. Growing online shopping penetration in Tier 2+

cities, consistent investment for growth of the sector, rising affinity for branded products that are available online with a wide assortment, increasing need for convenient shopping experience, rising adoption of e-commerce by Generation Zs and Millennials who are key growth enablers in the BPC category and higher consumer trust on products bought online, are key drivers of growth in the market. There is a large headroom ahead for further penetration in India, as suggested by higher penetration in the developed markets such as the US (20-25%) and China (35-40%).

### India to become ₹ 8,702 billion fashion opportunity by 2025

The size of the fashion market in India was ₹ 4,186 billion in 2016, constituting more than 9% of the retail market. Apparel accounted for ~80% of this market while footwear and accessories combined covered the remaining 20%. The fashion market grew at 12% CAGR over the next three years to reach ₹ 5,838 billion in 2019. It declined by 35% in 2020 during the first Covid-19 wave, driven by the reduction in discretionary spending and disruption in supply chain due to the lockdown. The fashion market in India is projected to recover strongly and grow at 18% CAGR over the next five years to ₹ 8,702 billion by 2025. Apparel is projected to continue driving ~73% of the market in 2025. The fashion market in India is currently dominated by the unorganised channel, mainly comprising local apparel, footwear and accessories stores. Hence, the current market is underserved as most traditional retailers try to serve broad demographic and are slow in reacting to changing trends. The organised segment has grown at a much faster pace as its share jumped from 29% in 2016 to 37% in 2020.

Exhibit 3: India fashion market size & growth (in ₹ bn)



Source: RHP, Crisil Research, ICICI Direct Research

## Company Background

Nykaa is a digitally native consumer technology platform, delivering a content-led, lifestyle retail experience to consumers through a diverse portfolio of beauty, personal care and fashion products, including their own brand products manufactured by company itself. Consumers are offered an Omnichannel experience with an endeavour to cater to their preferences and convenience:

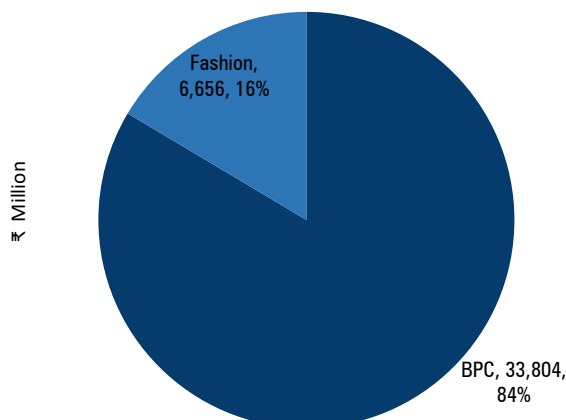
- **Online:** The company's online channels include mobile applications, websites and mobile sites. As of August 31, 2021, Nykaa had cumulative downloads of 55.8 million across all its mobile applications and during the five months ended August 31, 2021, 88.2% of company's online GMV came through the mobile applications. According to the RedSeer Report which has been exclusively commissioned and paid for by Nykaa in connection with the offer, the company had one of the highest share of mobile application-led transactions, among the leading online retail platforms in India during FY21 and the five months ended August 31, 2021.

- **Offline:** The company's offline channel comprises 80 physical stores across 40 cities in India over three different store formats as of August 31, 2021. Physical stores offer a select offering of products as well as a seamless experience across the physical and digital worlds.

The company's lifestyle portfolio ranges from beauty, personal care to fashion products. The belief that consumers have different journeys for different lifestyle needs has led the company to build business vertical-specific mobile applications, websites and physical stores. These independent channels allow it to tailor the content and curate optimally for the convenience of consumers and to cater to the different consumer journeys that exist in these business verticals:

- Nykaa: Beauty and personal care
- Nykaa Fashion: Apparel and accessories

Exhibit 4: FY21 revenue break-up by category (₹ crore, %)



Source: RHP, ICICI Direct Research

## Nykaa's value proposition

The company's business has been built iteratively while innovating for consumer satisfaction as well as optimising for purchase behaviour. The company believes that the consumer journey for product selection often includes a significant amount of time spent exploring. It endeavours to understand the process of decision making and provide for the critical moments across the different stages of a consumer's journey on its platform. Through integration across touchpoints, Nykaa targets consumers and designs personalised browsing and purchase experiences to meet their diverse needs. Its business model is rooted in value proposition, separating it from the otherwise predominantly transactional e-commerce industry.

Exhibit 5: Nykaa's value proposition



Source: RHP, ICICI Direct Research

## Nykaa Outlets

As of August 31, 2021, the company operated 80 physical stores in 40 cities of India across three formats. During FY20, the physical stores registered one of the highest sales per square feet figures across multi-brand specialty beauty and personal care platforms in India. The stores are broadly present in three formats:

- **Nykaa Luxe:** The Nykaa Luxe store format offers a luxury beauty experience. The format showcases prestige and luxury international and domestic brands.
- **Nykaa On-Trend:** The Nykaa on-trend stores offer a differentiated experience for consumers with the current best-selling products chosen across beauty and personal care brands.
- **Nykaa Kiosks:** The Nykaa kiosks are free standing units usually in the atriums of shopping malls. The company predominantly sells owned brands through these kiosks.

## Supply Chain

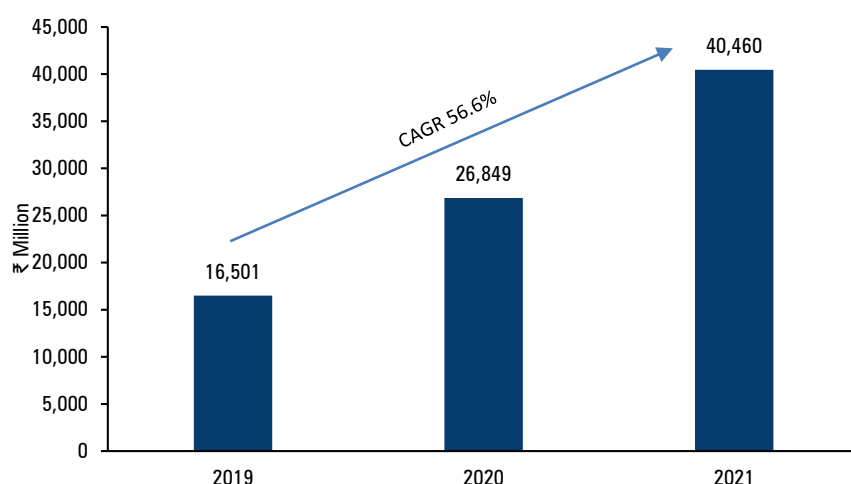
As of August 31, 2021, The company had an integrated supply chain comprising 20 warehouses (of which two are outsourced) across India, with a total capacity of 665,371 sq ft, supported by 80 physical stores.

## Investment Rationale

### One of leading lifestyle focused consumer technology platform

Nykaa is one of the preferred choices for consumers not only for engaging, personalised shopping experiences but also to understand latest trends in beauty, grooming and fashion in India. Nykaa is the largest specialty beauty and personal care platform in India in terms of value of products sold in FY21 and one of the fastest growing fashion platforms in India based on growth in GMV in FY20-21. Brand affinity built with consumers, helps the company to attract them to engage on its platform, increase consumer traffic, increase the number of transactions on its platform. Leveraging its brand strength, the company has been able to and expects to continue to add more lifestyle verticals and adjacencies which is expected to further increase its consumer base. The company's sizeable volume of content drives increased organic traffic and retention on its platform, which, in turn, drives higher engagement and better experience, helping the company create more content and further drive consumer experience and transactions. The company believes it has gained significant prominence not only as a lifestyle retail platform but also a leading lifestyle brand and influencer.

Exhibit 6: Nykaa's constantly rising GMV



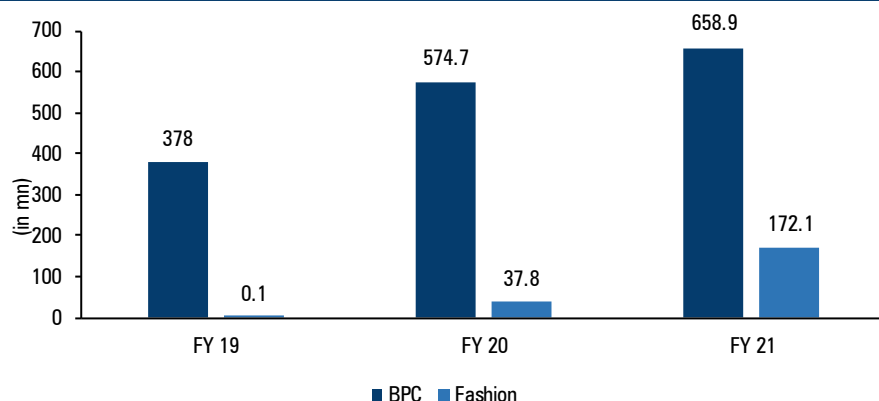
Source: RHP, ICICI Direct Research

### Preferred destination for luxury & private products in India

As per RedSeer Report, the company has the highest average order value (AOV) among the leading online beauty and personal care platforms in India and are the largest luxury beauty and personal care platform in India. The company carries a large number of leading luxury and prestige beauty and personal care brands under its roof, making it the customer's retail destination of choice in India.

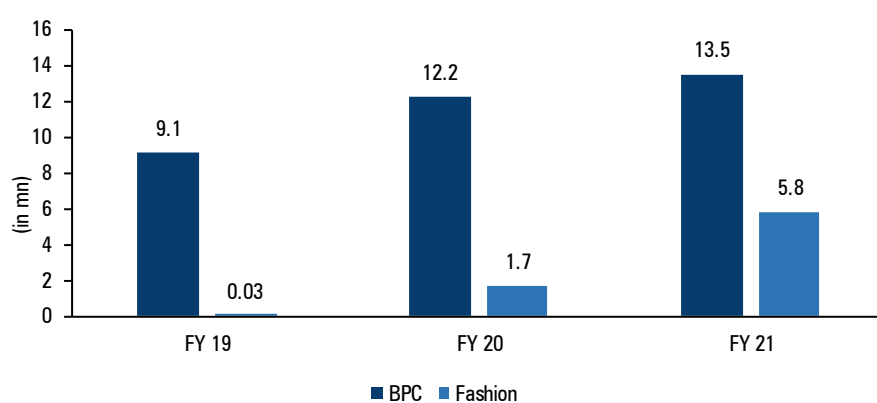
The company has tailored specific capabilities across marketing, technology, supply chain, fulfilment, and consumer service to create a differentiated ecosystem for such brands and its consumers. Further, while the company's warehouses generally have segregated areas for such brands, shipments to consumers from such warehouses are also packed in premium packaging to enhance the luxury shopping experience for the consumers. In case of certain international prestige brands, the company knows that physical stores play an important role in brand building. Hence, its ability to offer an integrated omni-channel retail strategy to these brands is a key strength for it. As a result of these bespoke services, many global luxury brands have chosen Nykaa to import, launch and sell their products to consumers in India. In the fashion business too company enables customisation for luxury and made-to-order products. Consumers can work with the company's stylists to identify their customisation requirements while the company works with the brands to deliver such customised products. As a result, the company has seen a surge in the number of unique visitors and website visits and has been successful in attracting them.

Exhibit 7: Number of visitors grow at CAGR of 32% for BPC during FY19-21



Source: RHP, ICICI Direct Research

Exhibit 8: Number of unique visitors grow at CAGR of 22% in BPC segment

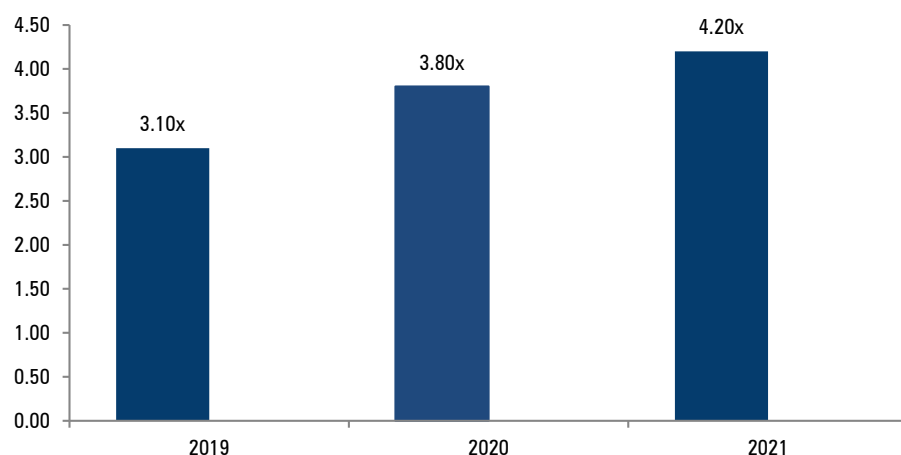


Source: RHP, ICICI Direct Research

### Capital efficient business with strong growth and profitability

The company has built a business with scale that has strong growth and profitability. In FY21, the GMV was ₹ 4045.9 crore with revenue from operations of ₹ 2440.8 crore and a 6.61% EBITDA margin. Revenue from operations grew 38.10% in FY21 as compared to FY20 despite the adverse impact of Covid-19 on the business. The company’s capital turnover ratio improved from 3.1x in FY19 to 4.2x in FY21. The company focused on capital efficiency and unit economics while simultaneously building for scale and growth. It has been able to achieve this scale with only ₹ 577.7 crore primary investments into the company as of March 31, 2021.

Exhibit 9: Nykaa’s capital turnover ratio



Source: RHP, ICICI Direct Research

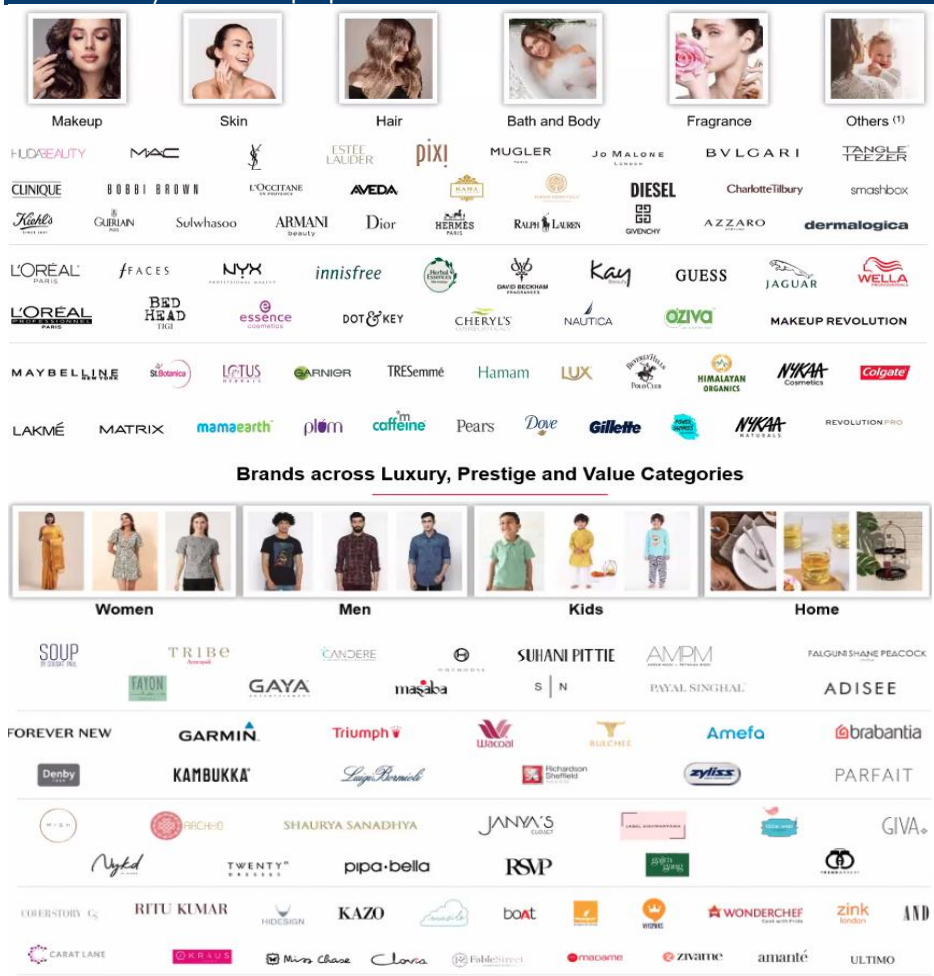


## Deep symbiotic relationship with brands

The company values its brand relationships and has a team of brand managers who work closely with brands to strategise and execute growth and brand building strategies. It views itself as a brand custodian and applies a client-servicing mindset to its interactions with brands to ensure it is building long-term strategic relationships. The company has leading domestic and international brands in its beauty and personal care portfolio such as Clinique, Dermalogica, Dove, Estee Lauder, Faces Canada, Forest Essentials, Herbal Essences, Innisfree, Lakme, MAC, Makeup Revolution, Mamaearth, Maybelline New York, Mcaffeine, Nautica, Plum, Smashbox and Wella Professional. In its fashion portfolio it has And, Bulchee, Caratlane, Fablestreet, Forever New, Gaya, House of Masaba, Hidesign, Triumph, Miss Chase, Shaurya Sanadhya, Tribe by Amrapali and Wacoal.

Nykaa offer brands involvement and integration in several aspects of its brand marketing strategy, from building marketing plans and promotions for their products to ensuring their standards in supply chain and fulfilment. For example, the company advises its brands on pricing and commercial strategies including discounting, sampling, gifting and couponing to meet consumer demand while respecting the brand's desired positioning in the market. The company also offers advertising space on its online channels and its physical stores to brands.

Exhibit 10: Nykaa's value proposition



Source: RHP, ICICI Direct Research

## Focus on strategic acquisitions & expansion

The company is actively involved in any strategic acquisitions that help company expand as a whole. It has acquired various brands recently like '20 dresses', 'Pipa Bella', RSVP. The recent acquisition of 'Dot & Key' in the newest addition in company's brand portfolio. Apart from this, the company also launches and promotes its own brands like Nykd, Nykaa Cosmetics & tie-up brand Kay. Overall the company offers a wide range of assortments on its platform and carefully devises its brand acquisition and promotion strategy.

## Key Risks

### Failure to retain or attract new brands, distributors and sellers

The company earns a substantial portion of revenue from commission or margins on the sale of products of its brand relationships. Accordingly, it depends on its ability to attract and retain domestic and global brands that offer a range of products to its consumers. The company experiences attrition in its relationships with brands, manufacturers, distributors, and sellers due to various reasons. A large part of its success is dependent on its ability to offer certain key brands within certain categories to its consumers and operate with such brand relationships. Any significant relationship attrition with brands, manufacturers, distributors or sellers, and fail to attract new relationships, the quantity and variety of products that are offered through its platforms could decline, which can adversely impact the business. Also, the company does not contractually require such parties to sell exclusively on its platform. Accordingly, they may choose to offer products through other channels at any time, which may impact the company's sales.

### Dependence on key external brands, sellers & suppliers

The company's revenue depends on the continued demand for the types of beauty and personal care and fashion products that its brand relationships, sellers and suppliers offer on its platforms, alongside demand and expansion of its owned brand products. The success is dependent on the ability of the company's sellers and brand relationships. The dependency on some popular brands may make the business vulnerable to these brand relationships changing their sales strategy, shifting focus to some other channel or multibrand retailer. Any deterioration in the relationships with these brand relationships may lead to loss of sales.

### Intense competition in industry

The industry in which the company operates is highly competitive. It expects that competition to continue to increase. Its competitors include a number of online marketplaces, retailers with physical stores and brands that take a direct-to-consumer approach, effectively removing company from the distribution and sales process. Consumers who purchase goods and services through the company have other alternatives and sellers have other channels to reach consumers. The company expects competition to continue to intensify.

## Financial summary

Exhibit 11: Profit and loss statement			
	₹ crore		
(Year-end March)	FY19	FY20	FY21
<b>Revenue</b>	<b>1,111.4</b>	<b>1,767.5</b>	<b>2,440.9</b>
Growth (%)		59.0	38.1
Raw material expense	660.3	1,014.2	1,487.8
Employee expenses	117.3	195.6	283.6
Advertisement Exp	142.8	202.2	169.5
Other expenses	170.5	274.5	338.5
Total Operating Exp	1,090.9	1,686.5	2,279.5
<b>EBITDA</b>	<b>20.5</b>	<b>81.1</b>	<b>161.4</b>
Growth (%)	-	295.2	99.2
Depreciation	30.9	59.5	67.1
Interest	26.3	44.3	30.7
Other Income	5.0	10.3	11.7
PBT	-31.7	-12.4	75.3
Total Tax	-7.2	3.9	13.4
<b>PAT</b>	<b>-24.5</b>	<b>-16.9</b>	<b>61.8</b>

Source: RHP, ICICI Direct Research

Exhibit 12: Cash flow statement			
	₹ crore		
(Year-end March)	FY19	FY20	FY21E
Profit after Tax	NA	-16.9	61.8
Add: Depreciation	NA	59.5	67.1
(Inc)/dec in Current Assets	NA	-227.8	-81.1
Inc/(dec) in CL and Provisions	NA	154.9	89.4
Others	NA	44.3	30.7
<b>CF from operating activities</b>	<b>NA</b>	<b>14.0</b>	<b>168.0</b>
(Inc)/dec in Investments	NA	-0.8	2.5
(Inc)/dec in Fixed Assets	NA	-148.7	-71.2
Others	NA	192.8	-22.5
<b>CF from investing activities</b>	<b>NA</b>	<b>43.4</b>	<b>-91.2</b>
Issue/(Buy back) of Equity	NA	0.3	0.5
Inc/(dec) in loan funds	NA	41.9	-80.0
Dividend paid & dividend tax	NA	0.0	0.0
Others	NA	63.6	74.7
<b>CF from financing activities</b>	<b>NA</b>	<b>105.8</b>	<b>-4.8</b>
Net Cash flow	NA	163.2	72.0
Opening Cash	NA	11.9	175.6
Closing Cash	NA	175.6	247.7

Source: RHP, ICICI Direct Research

Exhibit 13: Balance sheet			
	₹ crore		
(Year-end March)	FY19	FY20	FY21
<b>Liabilities</b>			
Equity Capital	14.2	14.6	15.1
Reserve and Surplus	216.3	307.6	474.9
Total Shareholders funds	230.6	322.1	489.9
Total Debt	225.6	267.5	187.5
Other non current liabilities	85.3	145.7	146.0
<b>Total Liabilities</b>	<b>541.4</b>	<b>735.4</b>	<b>823.4</b>
<b>Assets</b>			
Gross Block	180.8	327.8	401.7
Less: Acc Depreciation	41.4	100.9	171.1
Total Fixed Assets	139.8	228.9	233.0
Investments	3.0	3.8	1.3
Inventory	244.6	445.3	498.1
Debtors	57.9	98.4	76.6
Loans and Advances	10.5	18.0	21.6
Other CA	109.7	88.7	135.2
Cash	11.9	175.6	247.7
Total Current Assets	434.6	826.1	979.2
Creditors	181.8	313.3	316.2
Provisions	2.5	5.3	18.2
Other CL	50.0	70.5	144.1
Total Current Liabilities	234.2	389.1	478.5
Net current assets	200.4	437.0	500.7
Other non current assets	198.1	65.7	88.5
<b>Total Assets</b>	<b>541.2</b>	<b>735.4</b>	<b>823.4</b>

Source: RHP, ICICI Direct Research

Exhibit 14: Key ratios			
(Year-end March)	FY19	FY20	FY21E
<b>Per share data (₹)</b>			
EPS	-0.5	-0.4	1.3
Cash EPS	0.1	0.9	2.7
BV	4.9	6.8	10.4
DPS	0.0	0.0	0.0
<b>Operating Ratios (%)</b>			
EBITDA Margin	1.8	4.6	6.6
PAT Margin	-2.2	-1.0	2.5
Asset Turnover	6.1	5.4	6.1
Inventory Days	80.3	92.0	74.5
Debtor Days	19.0	20.3	11.5
Creditor Days	59.7	64.7	47.3
<b>Return Ratios (%)</b>			
RoE	-10.6	-5.2	12.6
RoCE	-1.0	4.3	12.9
RoIC	-2.7	3.8	15.0
<b>Valuation Ratios (x)</b>			
P/E	-2,170.0	-3,147.4	861.3
EV / EBITDA	2,597.9	657.5	329.2
EV / Net Sales	47.9	30.2	21.8
Market Cap / Sales	47.9	30.1	21.8
Price to Book Value	230.8	165.2	108.6
<b>Solvency Ratios</b>			
Debt / Equity	1.0	0.8	0.4
Current Ratio	2.3	2.0	2.2
Quick Ratio	1.0	0.6	0.7

Source: RHP, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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## RATING RATIONALE

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