

EBITDA margin pressure continues...

About the stock: Havells India (HIL) is India's leading electrical appliances & equipment manufacturer with a diversified product portfolio consisting of switchgears, cables, electrical consumer durables and lighting & fixtures. Apart from 'Havells', HIL's other major brands include Crabtree, Standard, Reo and Lloyd.

- In all its business segments, Havells has a strong presence in the organised product category with market share ranging between 6% and 20%
- Robust balance sheet with RoE & RoCE of 19% & 24%, respectively (five-year average), with stringent working capital policy

Q1FY23 Results: Strong revenue growth; high cost inventory dragged margins

- Revenue up ~63% YoY to ₹ 4230 crore led by strong volume growth of 40% YoY across all segments on a favourable base
- Gross margin saw a sharp fall mainly due to inventory losses in the cable segment. Overall EBITDA margin down by ~500 bps YoY, 324 bps QoQ to 8.5%.
- PAT grew marginally by ~4% YoY to ~₹ 242 crore

What should investors do? Strong B2C brand, focus on market share gains of Lloyd through improved product mix and dealer addition. The company's share price has grown ~2.3x in the last five years.

- We revise our rating from BUY to HOLD

Target Price and Valuation: We value the stock at 53x FY24E EPS with a revised target price of ₹ 1370/share.

Key triggers for future price performance:

- Total ~1.7 crore new houses under PMAY, urbanisation and rising aspiration level will give a significant boost to demand for home appliances
- Revival in the Lloyd business through new launches and improvement in segment margin
- It aims to increase its town penetration from current 1150 to 2000 and retail touch points from 1.6 lakh to 2.5 lakh over the next five years
- Model revenue, earnings CAGR of ~13%, 16%, respectively, in FY22-24E

Alternate Stock Idea: We like Polycab India in our coverage.

Polycab is the market leader in the wire & cable business with organised market share of 22%-24%. In the FMEG segment, it is growing through new product launches and dealer addition across India. Robust b/s with a 3-year average RoE, RoCE of 18%, 22%, respectively

- BUY with a target price of ₹ 2680



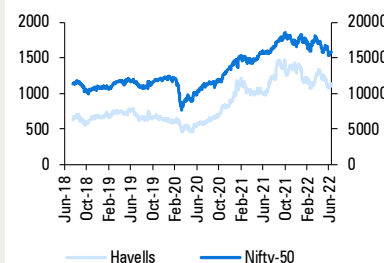
Particulars

Particular	Amount
Market Capitalization (₹ Cr)	78,424.2
Total Debt (FY22) (₹ Cr)	395.5
Cash and Inv (FY22) (₹ Cr)	0.0
EV (₹ Cr)	67,154.0
52 week H/L	504 / 1037
Equity capital (₹ Cr)	62.6
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	59.5	59.5	59.5	59.5	59.5
FII	24.0	26.8	26.5	24.4	23.1
DII	8.3	6.2	6.3	8.3	9.0
Others	8.2	7.5	7.7	7.8	8.5

Price Chart



Recent Event & Key risks

- Key Risk:** (i) Strong demand of consumer products (ii) Downward pressure on EBITDA margin

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Key Financial Summary

₹ Crore	FY19	FY20	FY21	FY22	5Year CAGR (FY17-22)	FY23E	FY24E	2Year CAGR (FY22-24E)
Net Sales	10067.8	9429.2	10427.9	13888.5	17.8	15982.0	18205.0	14.5
EBITDA	1183.9	1027.4	1565.2	1757.6	16.4	1775.6	2246.0	13.0
EBITDA Margin (%)	11.8	10.9	15.0	12.7		11.1	12.3	
PAT	787.4	733.0	1039.6	1194.7	17.2	1212.5	1568.9	14.6
EPS (₹)	12.6	11.7	16.7	19.1		19.4	25.1	
P/E (x)	99.6	107.0	75.4	65.6		64.7	50.0	
Price/Book Value (x)	18.7	18.2	15.2	13.1		13.5	13.3	
Mcap/Sales	7.8	8.3	7.5	5.6		4.9	4.3	
RoE (%)	18.8	17.0	20.1	19.9		20.9	26.6	
RoCE (%)	25.4	19.6	24.9	23.7		24.6	31.4	

Key takeaways of results & conference call highlight

Q1FY23 Results: Strong revenue growth, margin pressure continues...

- Havells' topline growth at 63% YoY to ₹ 4230 crore was driven by ~40% volume growth in Q1FY23 on a lower base of covid impacted quarter.
- Segment wise revenues were as follows; Lloyd up by 119% YoY to ₹ 1084 crore, Electrical consumer durable (ECD) up by 46% YoY to ₹ 838 crore, Cables up by 48% YoY to ₹ 1193 crore, Switchgears up by 38% YoY to ₹ 517 crore, Lighting & fixtures up by 77% YoY to ₹ 371 crore and Others up by 66% YoY to ₹ 228 crore respectively
- On a three-year basis, revenue grew at CAGR of 16% supported by ~9-10% of volume growth. Segment wise, Lloyd grew at a higher rate of 18% on a lower base and strong demand of cooling products. switchgear and cable revenues increased by 15% each, Lighting & ECD revenues increased by 14% each respectively.
- Havells' EBITDA margin at 8.5% declined ~500 bps YoY, mainly due to lower gross margin. Gross margin declined ~670 bps YoY due to use of higher cost of inventories in the cable and wire segment.
- Strong topline growth was partially offset by lower EBITDA margin, resulting in muted PAT growth of ~4% YoY to ₹ 242 crore

Q1FY23 Earnings Conference Call highlights

Future Demand Outlook:

- The company saw a 40% volume growth YoY, however Q1FY22 was a Covid-disrupted quarter. On a 3-year CAGR basis, the company has seen close to 9-10 volume growth
- Company is witnessing near term demand slowdown in both industrial and consumer products owing to high inflation. The management expects demand recovery to start from Q3FY22 onwards. Long term growth drivers like revival in real estate industry, higher government capex, rising disposable income remain intact
- The management expects demand to rise, especially in Southern India post the start of functionality of its new plant in Sri City (expected to commence operation from FY24 onwards)
- The company has gained market share in the RAC and Fans segment
- Havells is not affected by raw material shortages or supply-chain disruptions

Margins:

- In Q1FY23, the Cables segment was adversely impacted due to commodity cost inflation. The management expects margin to come to normalized levels post Q3FY23. The company promptly passes on price hikes as well as price reductions for its Cables & Wires segment
- For the Lloyd segment, the company did not pass on price hikes and focus on market share gains. This caused a dip in Lloyd's margins. However, the management expects double digit margins for Lloyd from Q4FY23 onwards

Lloyd:

- According to the management, Lloyd has gained some market share and is among the top 3 players in the AC industry in the first half of the calendar year
- Havells outsourced ~10-15% of its total RAC business from OEMs
- Change in energy norms from July'22 will lead to increase in product prices by ~10%.
- The company plans capex of ₹ 700-800 crore of capex for FY23 which includes greenfield expansion of RAC units in Sri City.

Inventory Levels:

- For the cables and wires segment, the inventory levels are low and the management is expecting the system inventory to go down in the coming weeks
- Inventory is at a higher level for Lloyd
- The company will be carrying system inventory for some more time and expects it to be at a normalized level post Q3FY23

Distribution Network:

- The company has a Pan-India dealer network with more than 14000 dealers for Havells and more than 1000 distributors for its Lloyd segment

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	78,424	10428	13889	15982	18205	15	13	11	12	1040	1195	1212	1569	25	24	25	31	20	20	21	27	75	66	65	50
Crompton Greaves	24,132	4804	5394	7308	8433	15	14	13	13	617	578	557	692	34	16	18	21	32	24	21	23	39	42	43	35
Bajaj Electrical	13,127	4585	4813	5442	6152	7	5	6	7	189	124	253	339	15	14	19	22	11	8	15	17	69	106	52	39
Polycab	33,326	8792	12204	13528	15170	13	10	11	11	886	917	1003	1160	21	20	22	22	18	16	17	17	38	36	33	29
Symphony	6,366	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	59	53	35	26
V guard	9,667	2721	3498	4050	4440	11	10	9	10	202	228	235	286	24	21	24	26	17	16	18	20	48	42	41	34
Voltas	33,470	7556	7934	9708	10895	8	9	9	11	529	506	694	957	15	14	18	21	11	9	14	17	63	66	48	35

Source: BSE, ICICI Direct Research

We believe, Havells has reported an encouraging three-year revenue CAGR of 16% supported by new product launches and market share gains. However, the company has faced EBITDA margin headwinds (down by 170 bps over its pre-covid level margins) from raw material prices and Lloyd’s operating losses. Going forward, we believe inability to take price hikes (in the fear of further demand disruption) and margin pressure (due to high cost of inventory) will keep overall profitability of the company under check in H1FY23. We expect, margin recovery to start from H2FY23 supported by pick up in festive demand and no major inventory loss. We cut our FY23E, FY24E earnings estimates by 4%, 2% respectively factoring in slow margin recovery. We believe a revival in profitability of Lloyd will be a key trigger for a re-rating of the stock. We believe the recent run up in stock price captures all near term positive hence we revise our rating from BUY to HOLD. We value the stock at 55x P/E FY24E EPS with a revised target price of ₹ 1370/share.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	4230.1	3877.2	2598.2	62.8	4417.1	-4.2	Strong revenue growth supported by favourable base and strong demand of room air conditioners
Other Income	47.0	42.6	34.2	37.4	44.2	6.4	
Raw Material Exp	3003.9	2597.7	1671.3	79.7	3122.3	-3.8	
Gross Margin (%)	29.0	33.0	35.7	-669 bps	29.3	-32 bps	Gross margin under pressure due to use of high cost inventory
Employee Exp	302.1	310.2	232.5	29.9	275.3	9.7	
Other expenses	562.8	504.0	341.3	64.9	498.9	12.8	Higher advertisement expense (up 151% YoY, 65% QoQ) with regard to Lloyd led to increase in overall other expenses
EBITDA	361.4	465.3	353.1	2.3	520.5	-30.6	
EBITDA Margin (%)	8.5	12.0	13.6	-505 bps	11.8	-324 bps	Sharp fall in gross margin led to decline in EBITDA margin in Q1
Depreciation	72.1	84.2	61.6	17.0	70.7	1.9	
Interest	9.8	12.7	11.0	-10.9	19.1	-48.8	
PBT	326.6	411.1	314.8	3.7	474.9	-31.2	
Total Tax	84.1	103.6	80.5	4.5	122.0	-31.0	
PAT	242.4	307.5	234.3	3.5	353.0	-31.3	Muted PAT in Q1, as strong topline growth was offset by lower EBITDA margin
Key Metrics							
Cable	1,192.9	1,254.4	807.2	47.8	1,488.1	-19.8	Strong demand from both B2B and B2C segment and a favourable base drives Cable segment revenue growth
Switchgear	516.7	447.4	373.4	38.4	474.4	8.9	Increased housing sales and uptick in renovation works drives segment sales
ECD	838.1	666.8	576.0	45.5	869.8	-3.6	Strong ECD revenue growth was led by new product launches and increased dealer networks
Lloyd	1,083.7	1,072.6	494.4	119.2	959.2	13.0	Strong demand of cooling products helped drive Lloyd revenues in Q1
Lighting & Fixtures	371.1	282.2	209.9	76.8	399.4	-7.1	New product launches coupled with dealer expansion drives overall segment revenue growth
Others*	227.6	153.8	137.3	65.8	226.1	0.7	

Source: Company, ICICI Direct Research, * Motor, Pump, Solar, Personal Grooming and Water Purifier businesses

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	15725.5	15982.0	1.6	17867.3	18205.0	1.9	We have revised our revenue estimates upward considering the strong revenue growth in Q1FY23
EBITDA	1827.0	1775.6	(2.8)	2294.1	2246.0	(2.1)	
EBITDA Margin (%)	11.6	11.1	-51bps	12.8	12.3	-46bps	We revised our margin estimate downside considering delay in price hike and higher advertisement expenditure the Lloyd division
PAT	1258.8	1212.5	(3.7)	1604.6	1568.9	(2.2)	
EPS (₹)	20.2	19.4	(3.7)	25.7	25.1	(2.2)	

Source: Company, ICICI Direct Research

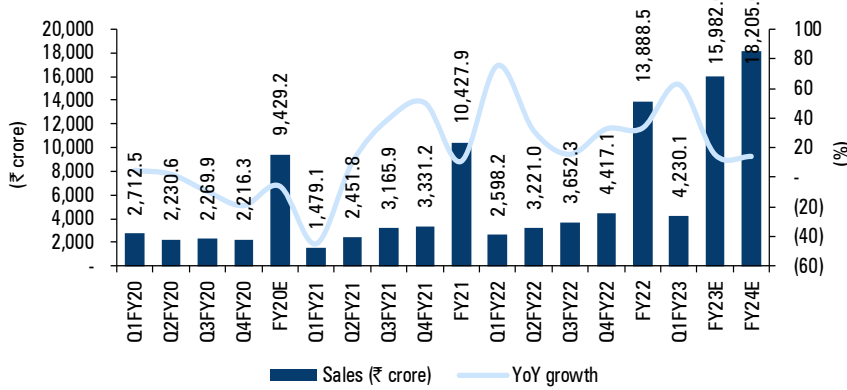
Exhibit 4: Assumption

	Current				Earlier			Comments
	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Cable Growth (%)	-7.4	6.2	46.1	9.2	13.7	12.5	13.7	We model segment revenue CAGR of 11% FY22-24E (revised downward from 13%) supported by higher government capex. However, sharp fall in realisation will restrict the overall revenue growth
Switchgear Growth (%)	-15.1	9.1	22.3	8.8	10.1	11.3	10.2	We model a moderate revenue CAGR of 9% FY22-24E on a higher base and dealer expansion in new geography
ECD Growth (%)	-4.3	18.5	29.0	14.3	11.0	14.4	11.1	Rural expansion and launch of premium products would help drive performance of ECD segment 13% FY22-24E.
Lloyd Growth (%)	-14.3	6.2	33.9	35.4	23.3	13.0	23.2	Lloyd segment revenue is likely to grow at CAGR of 29% in FY22-24E supported by capacity expansion and launch of new products (refrigerators and washing machines).
Lighting & Fixtures (%)	-22.2	6.9	26.4	12.8	9.6	17.6	9.7	We have revised our segment revenue growth estimates downward considering slow volume offtake in the tier II and tier III cities

Source: Company, ICICI Direct Research

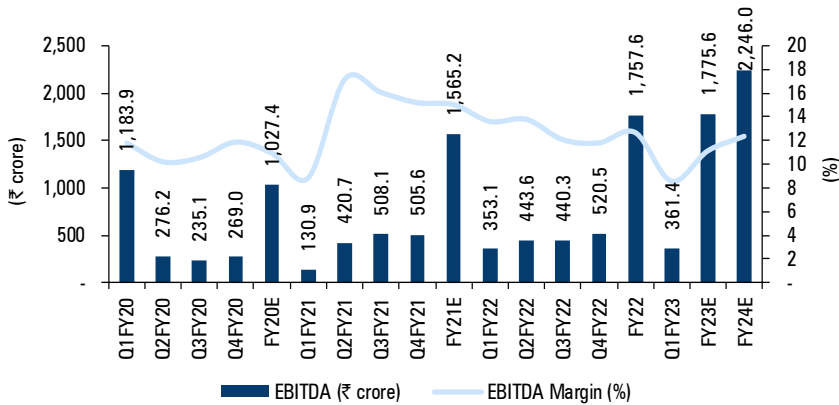
Financial story in charts....

Exhibit 5: Strong consumer demand to help drive sales growth



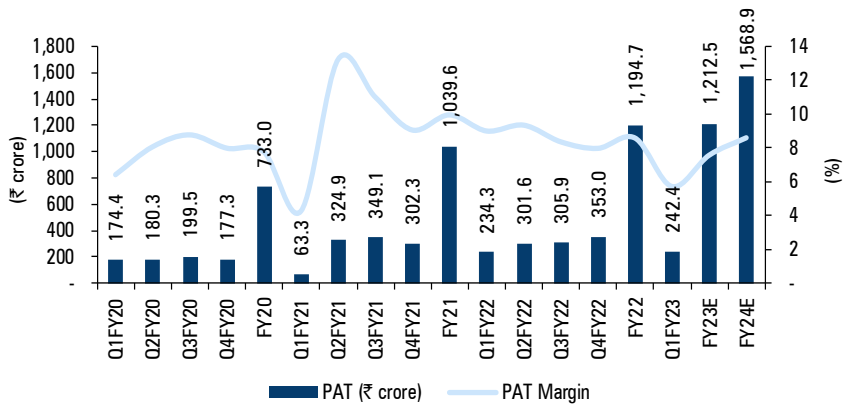
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 7: Marginal growth in PAT in Q1FY23



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
Year End March	FY21	FY22	FY23E	FY24E
Total Operating Income	10427.9	13888.5	15982.0	18205.0
Growth (%)		33.2	15.1	13.9
Raw Material Expenses	5390.5	7552.6	8390.6	9739.7
Employee Expenses	885.3	1014.7	1227.3	1297.0
Marketing Expenses	132.6	246.8	391.0	433.2
Other expenses	1369.9	1485.4	1720.7	2122.5
Operating Expenditure	8862.7	12130.9	14206.5	15959.0
EBITDA	1565.2	1757.6	1775.6	2246.0
Growth (%)		12.3	1.0	26.5
Other Income	187.8	160.4	175.8	189.3
Interest	72.6	53.4	37.1	32.1
Depreciation	248.9	260.8	290.9	305.8
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	1431.5	1603.8	1623.4	2097.4
Total Tax	391.9	409.1	410.9	528.6
PAT	1039.6	1194.7	1212.5	1568.9

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1039.6	1194.7	1212.5	1568.9
Depreciation	248.9	260.8	290.9	305.8
CF before working cap changes	1361.1	1509.0	1540.4	1906.8
Net Increase in Current Assets	-1024.0	-580.6	-729.8	-659.9
Net Increase in Current Liabilities	433.3	746.9	155.7	511.8
CF from operating activities	770.3	1675.3	993.1	1758.6
(Purchase)/Sale of Liquid Investmen	-306.3	152.9	-146.6	0.0
Others	123.6	-474.5	-453.4	-400.0
(Purchase)/Sale of Fixed Assets	-182.7	-321.6	-600.0	-400.0
CF from Investing Activities	-393.6	-342.1	-761.6	-415.0
Proceeds frm Equity Shares	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	393.7	1.9	-50.0	-50.0
Others	-252.8	-423.9	-1432.6	-1516.9
CF from Financing Activities	140.8	-422.1	-1482.6	-1566.9
Net Cash flow	517.6	911.1	-1212.1	-223.3
Opening Cash	1107.1	1624.7	2535.8	1323.7
Closing Cash	1624.7	2535.8	1323.7	1195.1

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	62.6	62.6	62.6	62.6
Reserve and Surplus	5101.9	5926.0	5743.0	5827.0
Total Shareholders funds	5164.4	5988.6	5805.6	5889.6
Total Debt	393.7	395.5	345.5	295.5
Deferred Tax Liability	339.1	350.6	350.6	350.6
Total Liabilities	6043.3	6981.3	6748.3	6782.3
Assets				
Total Gross Block	4355.5	4706.6	5256.6	5606.6
Less Acc. Depreciation	1322.3	1583.1	1874.0	2179.8
Net Block	3033.2	3123.5	3382.6	3426.8
Capital WIP	86.3	56.8	106.8	156.8
Total Fixed Assets	3119.5	3180.2	3489.4	3583.5
Investment	491.21	67.29	81.78	73.67
Inventory	2619.9	2968.1	3502.9	3990.1
Debtors	563.6	767.5	1007.1	1147.2
Other Current Assets	175.3	203.9	234.6	267.3
Cash	1624.7	2535.8	1323.7	1195.1
Total Current Assets	4983.6	6475.3	5993.0	6500.3
Total Current Liabilities	2776.9	3523.9	3679.5	4191.3
Net Current Assets	2206.7	2951.4	2371.9	2386.0
Total Assets	6043.3	6981.3	6828.6	6898.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	16.7	19.1	19.4	25.1
Cash EPS	20.7	23.3	24.1	30.0
BV per share	82.8	96.0	93.1	94.4
DPS	3.5	8.9	17.9	23.8
Operating Ratios (%)				
EBITDA Margin (%)	15.0	12.7	11.1	12.3
PAT Margin (%)	10.0	8.6	7.6	8.6
Asset Turnover	1.7	2.0	2.4	2.7
Debtors Turnover	19.7	20.2	23.0	23.0
Creditor Turnover	55.9	62.5	55.0	55.0
Return Ratios (%)				
RoE	20.1	19.9	20.9	26.6
RoCE	24.9	23.7	24.6	31.4
RoIC	29.2	32.3	28.4	33.8
Valuation Ratios				
EV / EBITDA	42.9	37.8	36.0	29.4
P/E	75.4	65.6	64.7	50.0
EV / Net Sales	6.4	4.8	4.3	3.8
EV / Net Sales	6.4	4.8	4.3	3.8
Market Cap / Sales	7.5	5.6	4.9	4.3
Price to Book Value	15.2	13.1	13.5	13.3
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	1.5	1.7	1.7
Quick Ratio	0.4	0.4	0.5	0.5

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	3,066	3,265	Buy	2,94,029	33.4	32.2	43.1	52.3	91.7	95.3	71.2	58.7	59.6	60.6	47.6	39.6	29.6	27.1	33.3	36.8	25.0	23.0	28.4	30.9
Berger Paints (BERPAI)	594	650	Hold	57,695	7.4	8.6	9.9	11.9	80.2	69.3	60.1	50.1	48.3	43.5	38.3	32.3	24.9	23.3	27.9	30.4	21.3	21.2	25.2	27.0
Kansai Nerolac (KANNER)	395	360	Reduce	21,287	9.8	6.9	9.7	12.1	40.1	56.9	40.6	32.7	25.2	32.8	25.3	20.8	17.2	12.1	16.8	19.5	13.2	9.2	12.7	14.6
Pidilite Industries (PIDIND)	2,361	2,000	Hold	1,19,892	22.2	23.8	26.0	32.2	106.5	99.3	90.9	73.4	71.1	64.8	60.5	49.1	23.8	22.2	22.6	25.6	20.2	18.8	19.1	21.4
Bajaj Electricals (BAJELE)	1,143	1,050	Hold	13,127	16.5	10.8	22.0	29.5	69.3	105.5	52.0	38.8	44.1	52.1	38.8	29.5	15.1	13.5	19.1	22.1	10.7	7.8	14.9	17.2
Crompton Greaves(CROGR)	385	390	Hold	24,132	9.8	9.2	8.9	11.0	39.1	41.7	43.3	34.9	32.0	31.5	27.2	22.4	34.4	16.2	17.8	21.0	31.9	24.0	21.5	23.3
Havells India (HAVIND)	1,257	1,370	Hold	78,424	16.7	19.1	19.4	25.1	75.4	65.6	64.7	50.0	49.3	43.4	43.6	34.5	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	2,230	2,680	Buy	33,326	59.3	61.4	67.1	77.6	37.6	36.3	33.2	28.7	29.2	25.5	21.8	18.7	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	910	1,215	Hold	6,366	15.3	17.3	26.1	34.8	59.5	52.6	34.8	26.2	44.5	38.4	26.8	20.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	224	255	Hold	9,667	4.7	5.3	5.4	6.6	47.5	42.0	41.2	33.8	30.1	28.4	26.7	21.7	23.9	21.2	23.7	26.2	16.7	16.2	18.0	20.0
Voltas Ltd (VOLTAS)	1,012	1,120	Hold	33,470	16.0	15.3	21.0	28.9	63.3	66.1	48.2	35.0	51.5	48.1	39.9	28.5	15.0	14.0	18.0	21.0	10.6	9.2	13.8	16.6
Amber Enterprises (AMBEN)	2,525	3,050	Hold	8,508	24.7	33.0	60.4	86.2	102.2	76.4	41.8	29.3	38.4	32.2	23.2	17.4	7.7	6.8	10.5	13.4	5.2	6.4	11.2	13.8
Dixon Technologies (DIXTEC)	3,948	4,470	Buy	23,431	27.3	32.1	58.6	88.6	144.8	123.1	67.3	44.6	81.8	62.2	37.6	26.5	23.5	17.7	28.0	32.4	21.7	19.1	32.1	35.0
Supreme Indus (SUPIND)	1,880	2,320	Buy	23,881	77.0	76.2	78.8	92.7	24.4	24.7	23.9	20.3	18.0	18.8	18.0	14.8	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	1,755	1,930	Hold	35,255	20.3	24.4	28.8	35.1	86.4	71.9	60.9	50.0	54.0	45.9	39.3	32.7	27.5	26.6	27.3	28.5	21.5	21.0	21.4	22.3
Time Techno (TIMTEC)	105	115	Hold	2,375	4.8	8.5	10.0	12.4	22.0	12.4	10.5	8.5	7.7	6.1	5.2	4.5	8.7	11.3	12.8	14.1	5.7	9.3	10.6	11.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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