

CMP: ₹ 726

Target: ₹ 950 (31%)

Target Period: 12 months

BUY

February 4, 2023

India business to drive revenue growth...

About the stock: Tata Consumer Products (TCPL) is one of the major FMCG companies present in tea, coffee & other beverages in India, UK, US, Canada & some other geographies. In India, it also has salt, pulses, spices & other foods products. Its subsidiary NourishCo is present in packaged water & other beverages. The company is in a JV with Starbucks, which has 311 stores in India.

- The company has 2000+ distribution directly reaching 1.4 million outlets in India, which will be increased to 1.5 million outlets by March 2023

Q3FY23 Results: TCPL reported 8.3% revenue growth led by India food business.

- Sales growth was largely driven by pricing in salt & new businesses
- EBITDA was at ₹ 453.7 crore, down 1.7% YoY, with margins at 13.1%
- Consequent adjusted PAT was at ₹ 304.4 crore (up 1.5% YoY)

What should investors do? TCPL's share price has moved up 160% in the last five years (from ₹ 278 in February 2018 to 726 in February 2023).

- We continue to remain positive on TCPL's strategy of driving premium trend in salt & tea and foray in large opportunity size categories
- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 950 ascribing 52x FY25 earnings multiple.

Key triggers for future price performance:

- Forayed into RTE, RTC, water, nutritional foods & multiple other categories with a large opportunity size. It is leveraging the Tata brand to grow in large opportunity size categories. The growth brands (Tata Sampann, NorurishCO, Tata Soufull and Tata Smartfoodz) now contribute 13% of India branded sales growing at 53% (in Q3FY23)
- Strong innovation & premiumisation strategy in salt and tea is expected to drive margins in these established categories. Newer categories like pulses, spices and dry fruits to drive volume growth given large opportunity size
- Starbucks is witnessing robust store addition along with significant improvement in operating margins. This is likely to drive profitability for the company, going forward

Alternate Stock Idea: We also like Dabur in our FMCG coverage.

- Shift in consumption towards healthier, natural & Ayurveda based products & aggressively foray in many big categories would drive growth
- Value the business at 52x FY25 earnings. BUY with a TP of ₹ 700

TATA CONSUMER PRODUCTS

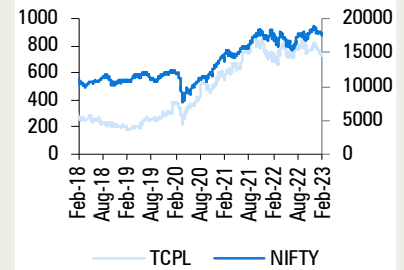
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	66,879.0
Total Debt (FY22)	1,454.6
Cash and Investments (FY22)	2,797.9
EV	65,535.7
52 week H/L (₹)	861 / 663
Equity capital	92.2
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	34.7	34.7	34.7	34.4
FII	25.4	25.3	25.3	25.6
DII	13.7	14.0	14.0	15.1
Others	26.2	26.0	26.0	24.9

Price Chart



Recent event & key risks

- TCPL gained value market share by 90 bps in salt whereas it lost share by 113 bps in tea
- Key Risk:** (i) Persistent inflation in adverse currency movement can continue to impact margins, (ii) Highly competitive intensity in tea can derail growth plans

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Key Financial Summary

Key Financials	FY21	FY22	5 Year CAGR (FY17 - FY22)	FY23E	FY24E	FY25E	CAGR (FY22-25E)
Net Sales	11602.0	12425.4	12.9%	13698.0	15133.8	16746.2	10.5%
EBITDA	1543.8	1718.8	16.8%	1843.5	2179.8	2477.1	13.0%
EBITDA Margin %	13.3	13.8		13.5	14.4	14.8	
Adjusted Net Profit	932.6	1015.2	17.4%	1322.0	1456.8	1686.1	18.4%
EPS (₹)	10.1	11.0	8.9%	14.3	15.8	18.3	18.4%
P/E	71.9	65.9		50.6	45.9	39.7	
RoNW %	6.4	7.0		7.6	9.0	10.2	
RoCE (%)	8.0	8.4		8.8	10.3	11.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY23 Results: India business growth key for margin expansion; contributing 70% to consolidated sales

- Revenue witnessed growth of 8.3% to ₹ 3474 crore led by 29.4% growth in India food business. India beverage & international beverage business saw muted sales during the quarter. India beverage business sales declined 4.7% whereas international beverage business sales were up 3.7%
- India business contributes 70% to sales and international business contributes remaining 30%. The faster growth in new categories (Sampaan, Soulful, NourishCo & Tata Foodz) along with mid-single digit volume growth in matured categories (tea & salt) would drive the growth of the company
- The decline in India beverage business was largely due to a decline in packaged beverages business (largely tea), which saw sales & volume dip of 9% & 5%, respectively, mainly on account of delay in winter and sluggish demand conditions in some key markets for the company
- TCPL lost market share by 113 bps in tea business given key markets for the company is North India, which was impacted by a delay in winters. Some signs of higher growth were seen in mid-December & January. The company would continue to gain market share from local & unorganised players. It is already 150 bps higher in market share in the last three years
- The company is 10-12% behind on distribution and market share compared to leader in the tea category. It is looking to expand distribution network to fill this distribution gap, specifically in rural Tamil Nādu, Eastern Uttar Pradesh and some parts of Maharashtra
- NourishCo brands witnessed growth of 66% to ₹ 119 crore. In 9MFY23, the business crossed ₹ 400 crore revenue. Operating leverage and cost saving initiatives are driving margin expansion in this business. Distribution reach for NourishCo brands is 6 lakh outlets
- India food business grew 29% led by 4% volume growth & 25% pricing growth. Salt business sales grew 27% largely led by increase in prices taken in the last one year. The company gained market share by 90 bps in salt. The company continues to drive premiumisation through rock salt (97% growth) and other variants. Salt dominates the sales in the India food business and other businesses are quite small as of now
- The company is looking to grow core tea & salt business in mid-single digits in volume terms with some pricing growth & premiumisation play. TCPL is looking to grow the business in high single digit in value terms
- Tata Sampaan (pulses, spices, dry fruits) saw 37% growth during the quarter with double digit volume growth. The margin in Tata Sampaan is low and the company would be looking to growth this business at a faster pace given opportunity size in pulses is more than ₹ 1 lakh crore
- Return of capital employed is very high in Sampaan given manufacturing is completely outsourced. The opportunity in RTE in India is ₹ 150 crore whereas it 10x of that in the international market
- Tata Soulful has seen triple digit sales growth with high double digit volume growth. Soulful masala oats have seen double digit growth during the quarter
- Distribution network for the company is 3.6 million outlets with direct distribution network of 1.4 million outlets. The reach for tea & salt business is 2.7 million outlets and for Soulful is 0.3 million outlets. The distribution network would increase to 4.0 million outlets largely in rural & semi urban areas. The company is moving to split route to drive assortments. It would increase depth in all 10 lakh plus towns

- International business growth of 3.7% led by growth in the US & Canada businesses. In constant currency terms, US coffee grew 1% and international tea witnessed growth of 2%
- Tata Coffee (plantation & extraction business) witnessed growth of 25% led by 34% pricing growth (volumes dipped 9%). Plantation revenue has de-grown 14% whereas extraction business grew 33% in both India and Vietnam
- Starbucks JV has opened 11 new stores during the quarter with total store count of 311 stores in 38 cities. Revenue growth in the business is 42% during the quarter. The business continues to remain EBIT positive
- Gross margin contracted 217 bps mainly due to currency & commodity headwinds in international business. The delay in passing on the inflation in commodity prices has impacted margins in the UK tea business. Marketing spends (as percentage of sales) was down 65 bps but employee & overhead spends were up by 8 bps & 16 bps, respectively. Operating profit was down 1.7% to ₹ 453.7 crore with margin contraction of 133 bps to 13.1%
- Net profit witnessed growth of 25.6% to ₹ 364.4 crore, mainly due to exceptional income of ₹ 78.6 crore arising out of acquiring controlling stake of overseas JV. Adjusting for exceptional income, PAT grew 1.5% to ₹ 304.3 crore

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
ITC Limited (ITC)	381	405 Buy	429858	23.1	19.4	6.8	32.0	32.5	35.5	30.7	26.7	22.8	24.5	27.1	29.7	31.4	35.3	38.8
Hindustan Unilever (HINLEV)	2649	2800 Hold	604971	11.3	16.3	9.5	24.8	23.5	24.0	70.6	63.0	56.8	18.1	20.3	22.4	20.2	22.9	25.6
Varun Beverage (VARBEV)	1155	1235 Hold	71889	7.1	10.2	10.5	13.8	13.5	14.4	65.9	50.6	45.9	7.0	7.6	9.0	8.4	8.8	10.3
Nestle (NESIND)	19004	22400 Hold	190912	10.2	14.3	10.5	24.5	22.3	24.1	85.4	74.3	63.1	111.3	103.6	110.3	58.7	57.1	63.0
Tata Consumer Products (TAT)	726	950 Buy	66879	7.1	10.2	10.5	13.8	13.5	14.4	65.9	50.6	45.9	7.0	7.6	9.0	8.4	8.8	10.3

Source: Company, ICICI Direct Research

Tata Consumer has been witnessing strong growth in newly forayed categories and product launched in the last few years. The new portfolio of the business is growing at 53% and contributing 14% to the India branded business sales. We believe the company would be able to grow these newer food categories at a faster pace in the long run, which would offset the impact of slower growth categories (tea & salt) & stagnant international business. Further, we believe premiumisation strategy in tea, salt & other categories would help improve margin, going forward. We also believe aggressive expansion in Starbucks would result strong cash flow generation in the next three to four years with many existing stores gaining maturity. The current growth trends and low margins are only impacted by transitory macro factors (commodity inflation in international business & adverse currency movement). We remain positive on the company on growth prospects & margin expansion possibility. We maintain our BUY recommendation and target price of ₹ 950/share.

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Net Sales	3,474.6	3,445.7	3,208.4	8.3	3,363.1	3.3	Net sales witnessed growth of 8.3% led by India food business. Volume were down in all segments except India food business (salt, pulses, spices, etc)
Raw Material Expenses	2,032.0	1,970.1	1,806.6	12.5	1,959.2	3.7	
Employee Expenses	283.0	278.5	258.9	9.3	273.8	3.4	Gross margins contracted 217 bps on account of lower margin in international business due to high coffee costs & adverse impact of currency movement
SG&A Expenses	228.4	241.2	245.3	-6.9	216.9	5.3	The company cut down marketing spends by 107 bps to protect operating margins
Other operating Expenses	477.4	483.6	435.9	9.5	479.3	-0.4	
EBITDA	453.7	472.3	461.7	-1.7	433.8	4.6	Operating profit declined 1.7%, mainly due to gross margin contraction
EBITDA Margin (%)	13.1	13.7	14.4	-133 bps	12.9	16 bps	
Depreciation	75.2	70.3	69.8	7.7	73.1	2.8	
Interest	23.7	12.9	16.2	46.5	19.6	21.1	
Other Income	48.9	29.4	25.0	95.4	29.3	66.9	
Exceptional Expense/(Income)	-78.6	0.0	13.2	NA	-111.2	NA	Exceptional gains with acquisition of minority stake in Joekels JV. It is now a 100% subsidiary of Tata Consumer
PBT	482.3	418.5	387.6	24.5	481.7	0.1	
Tax Outgo	112.9	106.7	99.9	13.0	126.7	-10.9	
PAT before MI	369.5	311.8	287.7	28.4	355.0	4.1	
Profit from Associates	-5.0	9.6	2.4	-310.0	34.5	NC	Profit from associate was impacted by one time cost in starbucks
PAT	364.4	321.3	290.1	25.6	389.4	-6.4	
Adj PAT	304.3	321.3	299.9	1.5	307.5	-1.0	Adjusted profit grew 1.5% impacted by lower operating profit

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New	
Sales	13,758.9	13,698.0	-0.4	15192.05	15,133.8	-0.4	16,746.2	We largely maintain our sales estimate. We are introducing FY25E numbers
EBITDA	1,885.6	1,843.5	-2.2	2,263.0	2,179.8	-3.7	2,477.1	
EBITDA Margin (%)	13.7	13.5	-25 bps	14.9	14.4	-49 bps	14.8	We estimate lower operating margin estimates given international business margins are volatile
PAT	1,264.1	1,322.0	4.6	1,562.6	1,456.8	-6.8	1,686.1	Incorporating exceptional gain in FY23. We increase depreciation provisioning in FY24
EPS (₹)	13.7	14.3	4.6	17.0	15.8	-6.8	18.3	

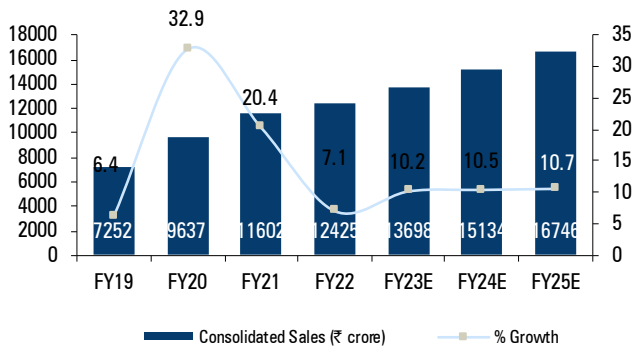
Source: ICICI Direct Research

Exhibit 4: Assumptions

Segmental Revenues (Gross)	Current						Earlier		Comment
	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	
Tea / India Beverage	3,376.9	4,600.7	5,001.0	5,001.0	5,401.1	5,833.2	5,201.0	5,617.1	We slightly cut our India beverage business estimates
Coffee / International Bevergae	3,226.0	3,469.3	3,335.0	3,568.5	3,782.6	4,009.5	3,535.1	3,747.2	Small change in International business estimates
TCL Consumer / India Foods		2,441.7	2,913.0	3,641.3	4,296.7	5,070.1	3,612.1	4,262.3	Small change in India foods estimates

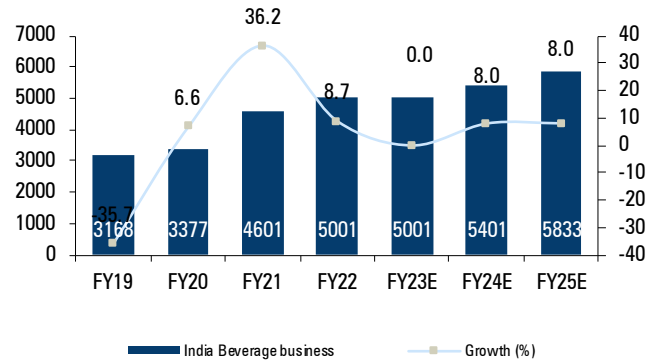
Source: ICICI Direct Research

Exhibit 5: Consolidated revenue to grow at 10.5% in FY22-25E



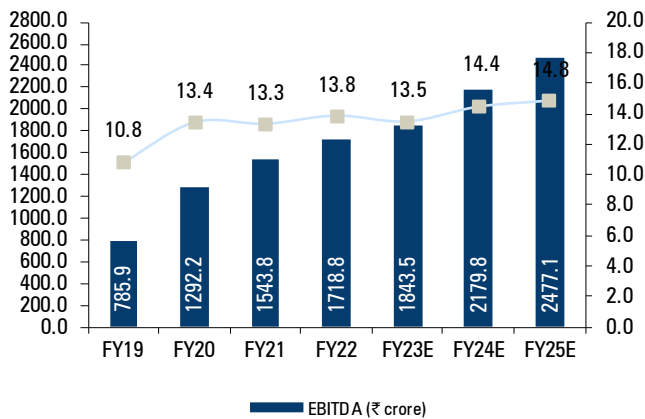
Source: ICICI Direct Research, Company

Exhibit 6: India beverage business sales trend



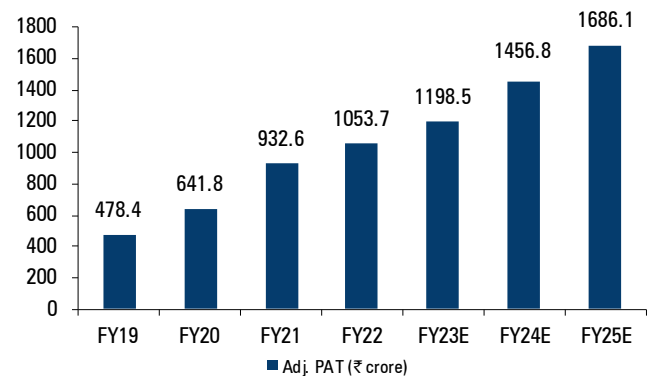
Source: ICICI Direct Research, Company
*FY19 onwards segment reporting has changed from tea to India Beverage

Exhibit 7: Operating margins trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: Adjusted PAT growth trends



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY22	12425.4	7.1	11.0	9.1	65.9	38.6	7.0	8.4
FY23E	13698.0	10.2	14.3	30.2	50.6	36.1	7.6	8.8
FY24E	15133.8	10.5	15.8	10.2	45.9	30.6	9.0	10.3
FY25E	16746.2	10.7	18.3	15.7	39.7	27.0	10.2	11.5

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Operating Income	12425.4	13698.0	15133.8	16746.2
Growth (%)	7.1	10.2	10.5	10.7
Raw Material Expenses	7,084.0	7,915.9	8,486.4	9,330.2
Employee Expenses	1,048.0	1,129.2	1,261.3	1,394.3
Marketing Expenses	841.0	881.4	1,094.1	1,226.3
Administrative Expenses	0.0	0.0	0.0	0.0
Other expenses	1,733.6	1,928.0	2,112.2	2,318.3
Total Operating Expenditure	10,706.6	11,854.5	12,954.0	14,269.1
EBITDA	1718.8	1843.5	2179.8	2477.1
Growth (%)	11.3	7.3	18.2	13.6
Depreciation	278.0	297.0	300.8	304.6
Interest	72.8	71.1	66.7	62.3
Other Income	140.1	154.1	161.8	169.9
PBT	1,508.1	1,629.6	1,974.1	2,280.1
Exceptional items	-52.1	165.8	0.0	0.0
Total Tax	377.0	457.8	503.4	581.4
PAT	1015.2	1322.0	1456.8	1686.1
Growth (%)	9.1	30.2	10.2	15.7
EPS (₹)	11.4	13.0	15.8	18.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/Loss after Tax	1220.7	1322.0	1456.8	1686.1
Add: Depreciation	278.0	297.0	300.8	304.6
Add: Interest	72.8	71.1	66.7	62.3
(Inc)/dec in Current Assets	-149.7	-2,404.2	-1,101.8	-875.9
Inc/(dec) in Current Liabilities	152.0	-958.4	232.1	260.6
CF from operating activities	1515.8	-1672.5	954.4	1437.7
(Inc)/dec in Investments	-86.0	-12.4	-12.8	-13.2
(Inc)/dec in Fixed Assets	-246.1	-2,933.9	-100.0	-100.0
Others	-989.8	5,171.3	45.9	51.6
CF from investing activities	-1321.8	2224.9	-66.9	-61.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-945.7	-40.0	-40.0	-40.0
Dividend paid & dividend tax	-62.5	-767.6	-986.9	-1,315.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	13.4	-71.1	-66.7	-62.3
CF from financing activities	-994.8	-878.7	-1093.6	-1418.2
Net Cash flow	-800.8	-326.3	-206.0	-42.1
Opening Cash	1,773.2	977.1	650.9	444.8
Closing Cash	1498.0	1171.7	965.7	923.6

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22E	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	92.2	92.2	92.2	92.2
Reserve and Surplus	15,049.8	15,604.2	16,074.0	16,444.2
Total Shareholders funds	15,141.9	15,696.3	16,166.2	16,536.3
Long Term Borrowings	685.9	645.9	605.9	565.9
Long Term Provisions	175.6	438.3	484.3	535.9
Other Non-current Liabilities	1941.5	1941.5	1941.5	1941.5
Total Liabilities	17945.0	18722.1	19197.9	19579.7
Assets				
Gross Block	7,715.5	7,815.5	7,915.5	8,015.5
Less: Acc Depreciation	3,005.5	3,302.5	3,603.3	3,907.9
Net Block	1,876.1	4,513.0	4,312.2	4,107.6
Capital WIP	247.0	247.0	247.0	247.0
Goodwill	10508.5	5600.0	5600.0	5600.0
Non Current Investments	863.7	876.2	889.0	902.2
LT Loans & Advances/Others	486.6	486.6	486.6	486.6
Current Assets				
Inventory	2,266.5	3,377.6	3,731.6	4,129.2
Debtors	835.2	1,501.2	1,658.5	1,835.2
Cash	1,498.0	1,171.7	965.7	923.6
Loans & Advances	1,959.9	2,862.9	3,421.9	3,688.2
Other Current Assets	184.3	300.2	331.7	367.0
Current Liabilities				
Creditors	1915.9	938.2	1036.6	1147.0
Provisions	73.2	225.2	248.8	275.3
Short Term Borrowings	768.7	600.5	663.4	734.1
Other CL	414.8	450.3	497.5	550.6
Net Current Assets	3,963.1	6,999.4	7,663.1	8,236.3
Total Assets	17945.0	18722.1	19197.9	19579.7

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	11.0	14.3	15.8	18.3
Cash EPS	14.0	17.6	19.1	21.6
BV	164.3	170.3	175.4	179.4
DPS	5.5	7.0	9.0	12.0
Cash Per Share	16.3	12.7	10.5	10.0
Operating Ratios (%)				
EBITDA Margin	13.8	13.5	14.4	14.8
PBT / Net Sales	12.1	11.9	13.0	13.6
PAT Margin	8.2	9.7	9.6	10.1
Inventory days	66.6	90.0	90.0	90.0
Debtor days	24.5	40.0	40.0	40.0
Creditor days	56.3	25.0	25.0	25.0
Return Ratios (%)				
RoE	7.0	7.6	9.0	10.2
RoCE	8.4	8.8	10.3	11.5
RoIC	18.0	13.6	15.5	17.2
Valuation Ratios (x)				
P/E	65.9	50.6	45.9	39.7
EV / EBITDA	38.6	36.1	30.6	27.0
EV / Net Sales	5.3	4.9	4.4	4.0
Market Cap / Sales	5.4	4.9	4.4	4.0
Price to Book Value	4.4	4.3	4.1	4.0
Solvency Ratios				
Debt/EBITDA	0.8	0.7	0.6	0.5
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.2	5.0	5.1	5.1
Quick Ratio	1.2	2.9	3.0	3.0

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,461	1,440	Hold	39,473	39.6	37.7	40.3	36.9	38.7	36.3	7.8	7.6	7.1	77.8	79.3	84.2	62.2	60.4	64.1
Dabur India (DABIND)	534	700	Buy	97,880	9.9	10.3	12.0	54.2	52.0	44.3	9.0	8.5	7.7	24.9	23.9	26.1	20.8	20.5	22.2
Hindustan Unilever (HINLEV)	2,649	2,800	Hold	6,04,971	37.5	42.0	46.7	70.6	63.0	56.8	12.0	10.3	9.4	20.2	22.9	25.6	18.1	20.3	22.4
ITC Limited (ITC)	381	405	Buy	4,29,858	12.4	14.2	16.7	30.7	26.7	22.8	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	209	215	Hold	7,485	4.3	6.7	7.8	49.1	31.4	26.8	3.5	3.1	2.8	18.7	27.5	31.4	16.6	24.2	27.0
Marico (MARLIM)	494	560	Hold	69,587	9.7	10.2	11.2	50.8	48.4	43.9	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	19,004	22,400	Hold	1,90,912	222.4	255.8	301.1	85.4	74.3	63.1	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	911	1,750	Buy	50,721	27.3	30.9	43.5	33.4	29.5	21.0	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	726	950	Buy	66,879	11.0	14.3	15.8	65.9	50.6	45.9	5.4	4.9	4.4	8.4	8.8	10.3	7.0	7.6	9.0
Varun Beverage (VARBEV)	1,155	1,235	Hold	71,889	17.2	23.2	26.8	67.0	49.7	43.1	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	2,970	3,300	Hold	4,807	207.4	214.1	229.4	14.3	13.9	12.9	4.1	3.6	3.4	39.2	41.8	49.1	30.0	31.9	36.9
Zydus Wellness (ZYDWEL)	1,397	2,000	Buy	8,979	48.5	55.0	67.4	28.8	25.4	20.7	4.5	4.0	3.6	6.1	6.8	8.1	6.4	7.1	8.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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