

15 March 2023

Greenply Industries

Attractive valuation, potential dark horse; maintaining a Buy

Rating: Buy

Target Price: Rs.230

Share Price: Rs.141

Healthy plywood growth and greater MDF utilisation would drive Greenply's domestic performance. Overseas demand expected to be soft. Expected input-cost easing would expand margins. The stock trades at attractive valuation; we retain a Buy, at a lower TP, 15x FY25e earnings.

Plywood division: decent growth, sustainable profitability. Trading and its asset-light model provides Greenply flexibility to raise volumes on mounting demand. The Sandila (UP) manufacturing plant (13.5m sq.mtr) commissioned in Q1 FY23 is near optimum utilisation and commissioning of the 7.5m sq.mtr. capacity at Hapur, UP (a partner facility) is expected soon (Mar'23). An 11.4% volume CAGR expected over FY22-25. Prices of chemicals have declined, and high timber prices have started to cool. Hence, margins are expected swing up.

High-growth medium-density fibre-board to begin operations, margins have moderated. MDF capacity (240,000 cu.mtrs) at Vadodara is expected to begin by Q1 FY24. Robust demand led to domestic manufacturers scaling up capacities, besides increasing imports. This led to margins steeply sliding from highs of 30-32%; 23-25% however, seems sustainable.

Gabon operation traversing a rough patch; yet to pick up pace. The energy crisis in Europe on the Russo-Ukraine war led to project cancellations. Q1/Q2 volumes, though, were decent but Q3 was a washout. Some orders have come in Q4. Demand is still weak; but FY24 performance would be better.

Trades at attractive valuation; potentially a dark horse. Considering 9M FY23 performance, we lower FY23e/FY24e/FY25e earnings 10%/20%/12%. 21%/26% revenue/earnings CAGRs over FY22-25 anticipated. We believe the stock could be a dark horse: it trades at attractive valuations (much lower than peers). We, thus, retain our Buy, at a lower TP of Rs 230 (15x FY25e earnings), earlier Rs.262 on 15x FY25e earnings.

Risks: Demand slowdown, rising competition, reasonably priced raw material.

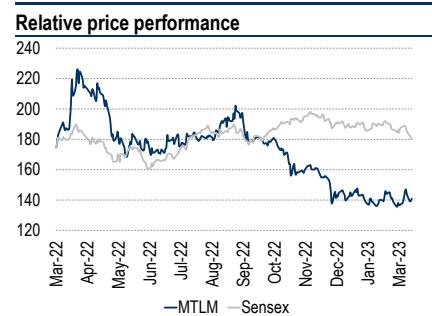
Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	11,653	15,628	18,474	22,858	27,419
Net profit (Rs m)	609	947	953	1,140	1,877
EPS (Rs)	5.0	7.7	7.8	9.3	15.3
P/E (x)	28.4	18.3	18.1	15.2	9.2
EV / EBITDA (x)	15.4	13.0	12.7	9.6	6.5
P/BV (x)	4.0	3.2	2.6	2.3	1.8
RoE (%)	15.0	19.4	15.9	16.0	21.9
RoCE (%) after tax	11.9	13.5	10.8	72.6	19.2
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3
Net debt / equity (x)	0.1	0.4	0.7	0.8	0.5

Source: Company, Anand Rathi Research

Key data	MTLM IN / GRPL.BO
52-week high / low	Rs233 / 134
Sensex / Nifty	57556 / 16972
3-m average volume	\$0.3m
Market cap	Rs17bn / \$209.7m
Shares outstanding	123m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	52.3	52.3	52.3
- of which, Pledged	-	-	-
Free float	47.7	47.7	47.7
- Foreign institutions	2.3	3.2	3.4
- Domestic institutions	32.9	32.9	33.4
- Public	12.6	11.6	10.9

Estimates revision (%)	FY23e	FY24e	FY25e
Sales	1.6	1.5	(3.1)
EBITDA	(7.7)	(11.9)	(7.7)
PAT	(10.1)	(19.7)	(12.3)



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Research Analyst

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Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	11,653	15,628	18,474	22,858	27,419
Growth (%)	-18.0	34.1	18.2	23.7	20.0
Direct costs	6,841	9,353	11,315	13,572	16,006
SG&A	3,645	4,772	5,427	6,858	7,986
EBITDA	1,167	1,503	1,732	2,429	3,427
EBITDA margins (%)	10.0	9.6	9.4	10.6	12.5
- Depreciation	231	258	314	674	706
Other income	68	99	127	171	240
Interest expenses	166	119	274	405	459
PBT	837	1,224	1,551	1,520	2,502
Effective tax rate (%)	24.4	24.7	25.0	25.0	25.0
+ Associates / (Minorities)	-24	26	-	-	-
Net income	609	947	1,233	1,140	1,877
Adjusted income	609	947	953	1,140	1,877
WANS	122.6	122.6	122.6	122.6	122.6
FDEPS (Rs / sh)	5.0	7.7	7.8	9.3	15.3
FDEPS growth (%)	-37.3	55.5	0.6	19.7	64.6
Gross margins (%)	41.3	40.2	38.8	40.6	41.6

Fig 2 – Balance sheet (Rs m)

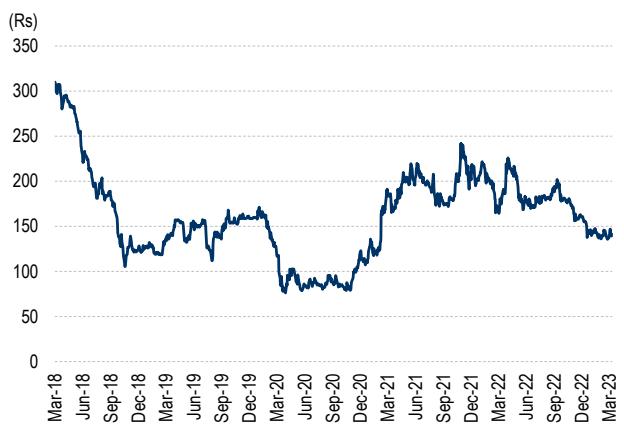
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	123	123	123	123	123
Net worth	4,244	5,259	6,443	7,534	9,362
Debt	1,917	2,919	6,267	7,206	6,114
Minority interest	-	-	-	-	-
DTL / (Assets)	-64	-73	-73	-73	-73
Capital employed	6,220	8,228	12,760	14,790	15,526
Net tangible assets	2,792	3,086	3,586	9,836	10,586
Net intangible assets	292	440	440	440	440
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	62	1,096	4,375	250	125
Investments (strategic)	225	258	258	258	258
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	704	1,789	1,980	2,306	2,705
Cash	1,280	726	1,600	1,292	1,090
Current liabilities	824	1,124	1,534	1,743	1,789
Working capital	1,688	1,957	2,056	2,153	2,113
Capital deployed	6,220	8,228	12,760	14,790	15,526
Contingent liabilities	560	556	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (adj. for int. exp. / other income)	837	1,224	1,551	1,520	2,502
+ Non-cash items	231	258	314	674	706
Oper. prof. before WC	1,068	1,482	1,865	2,195	3,209
- Incr. / (decr.) in WC	948	(291)	164	(195)	(286)
Others incl. taxes	3	(192)	(43)	25	(167)
Operating cash-flow	2,019	999	1,986	2,025	2,756
- Capex (tang. + intang.)	(183)	(1,733)	(4,093)	(2,799)	(1,331)
Free cash-flow	1,836	(734)	(2,107)	(774)	1,425
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	(49)	(49)	(49)	(49)	(49)
+ Equity raised	-	-	-	-	-
+ Debt raised	(454)	1,001	3,349	939	(1,092)
- Fin investments	13	(33)	-	-	-
- Misc. (CFI + CFF)	(169)	(740)	(318)	(423)	(486)
Net cash-flow	1,177	(554)	874	(308)	(202)

Source: Company, Anand Rathi Research

Fig 5 – Price movement



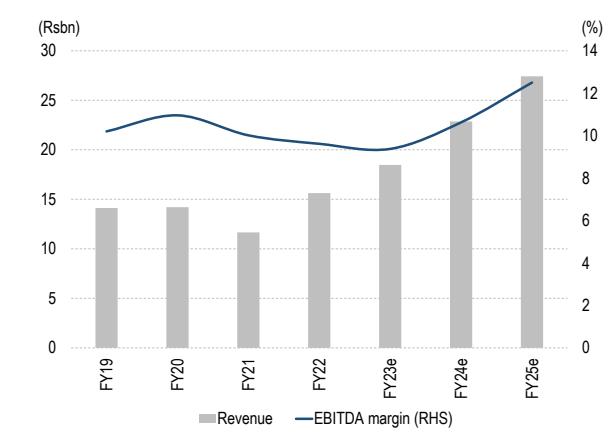
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	28.4	18.3	18.1	15.2	9.2
EV / EBITDA (x)	15.4	13.0	12.7	9.6	6.5
EV / Sales (x)	1.5	1.2	1.2	1.0	0.8
P/B (x)	4.0	3.2	2.6	2.3	1.8
RoE (%)	15.0	19.4	15.9	16.0	21.9
RoCE (%) - after tax	11.9	13.5	10.8	72.6	19.2
RoIC	14.0	16.3	12.4	11.7	15.9
DPS (Rs / sh)	0.4	0.4	0.4	0.4	0.4
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3
Dividend payout (%)	8.1	5.2	4.0	4.3	2.6
Net debt / equity (x)	0.1	0.4	0.7	0.8	0.5
Receivables (days)	60.7	43.5	40.6	37.5	34.4
Inventory (days)	56.1	52.7	50.0	46.9	43.8
Payables (days)	64.0	50.5	50.0	50.0	50.0
CFO : PAT %	331.5	105.5	208.4	177.6	146.8

Source: Company, Anand Rathi Research

Fig 6 – Revenue and EBITDA margin trends



Source: Company

Q3 FY23 results analysis

Revenues as we expected, disappoints on profitability – Excess-provision reversal, income-tax refund boost PAT

- Revenue grew a small 1.7% y/y to Rs4,282m (ARe Rs4,315m) as the protracted holiday season and sluggish demand restricted sales volumes.
- Gross profit grew 2.6% y/y to Rs1,673m, resulting in a 39.1% gross margin (ARe 39.4%). On the input-cost front, though prices of chemicals softened a bit, high timber prices persisted.
- Higher employee costs, up 26.6% y/y (14.1% of sales vs. 11.3% in Q3 FY22) slashed EBITDA 24% y/y to Rs326m. This resulted in a 7.6% EBITDA margin (ARe 8.9%).
- Despite other income up 13.8% y/y, adj. PAT was impacted by higher depreciation and interest expenses, up respectively 47.4% and 137.6% y/y, along with higher tax.
- Reported PAT rose 20.9% y/y to Rs360m led by i) reversal of an excess provision of Rs96.2m and ii) a Rs184.3m income-tax refund.

Operational details

- **Plywood.** Revenue grew 8.7% y/y to Rs4,054m, supported by 2.4% y/y rise in volumes sold (16m sq.mtrs.) Realisation was up 6% y/y to Rs249/sq.mtr.
- The **volume mix** of own manufacturing–partner manufacturing–trading was 54:9:37, vs. 52:13:35 a year ago.
- The **value mix** of own manufacturing–partner manufacturing–trading was 63:8:29, vs. 62:11:27 a year ago.
- **Gabon.** The energy crisis in Europe region in Q2 bruised the Gabon subsidiary's performance. This persisted through Q3. Hence, revenue of Gabon, Middle East, a subsidiary, was 52.2% lower y/y to Rs230m. Sales volumes were 59.2% lower y/y to 4,512 cu.mtrs, though realisations were up 17.5% y/y to Rs50,975/cu.mtr.

Other details

- **Working capital days** increased by five q/q to 51. This was due to three more inventory days q/q to 55, four fewer payables days q/q to 47, while receivables days were two fewer q/q to 43.
- **Capex.** Commissioning of the MDF plant (800 cu.mtrs./day) at Vadodara is going well and trial runs are expected in Q4 FY23. Likely capex is Rs5.95bn, with revenue potential of Rs6bn-6.5bn.
- **Debt.** Gross debt rose 20% q/q to Rs6bn; net debt, 15.8% q/q to Rs5.56bn.

Financial highlights

Fig 7 – Financials (consolidated)

(Rs m)	Q3 FY22	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q	9M FY22	9M FY23	% Y/Y	FY21	FY22	% Y/Y
Revenue	4,211	4,947	4,282	1.7	(13.5)	11,143	13,765	23.5	11,653	15,628	34.1
Raw material costs	2,580	2,990	2,609	1.1	(12.7)	6,660	8,380	25.8	6,841	9,353	36.7
Employee costs	477	637	604	26.6	(5.1)	1,429	1,802	26.1	1,495	1,933	29.3
Other expenses	725	831	743	2.5	(10.7)	1,996	2,367	18.6	2,151	2,839	32.0
EBITDA	428	489	326	(24.0)	(33.4)	1,057	1,215	14.9	1,167	1,503	28.7
Other income	27	14	31	13.8	115.2	68	61	(10.9)	68	99	46.3
Depreciation	65	89	96	47.4	8.5	191	261	36.8	231	258	12.0
Finance costs	26	73	62	137.6	(15.3)	94	187	97.4	166	119	(28.3)
Profit / Loss from Associate	26	(14)	(22)	(184.0)		25	(41)	(262.4)	(24)	26	(210.0)
PBT	390	327	272	(30.2)	(16.9)	865	883	2.1	814	1,250	53.6
Tax	92	91	(88)	(196.4)	(196.6)	207	79	(61.8)	205	303	47.8
PAT	298	236	360	20.9	52.8	658	804	22.2	609	947	55.5
Adj. PAT	298	236	80	-73.2	-66.1	658	523	-20.4	609	947	55.5
EPS (Rs)	2.4	1.9	2.9	20.6	52.5	5.4	6.5	22.0	5.0	7.7	55.5
As % of income				bps y/y	bps q/q			bps y/y			bps y/y
Raw material costs	61.3	60.4	60.9	(34)	49	59.8	60.9	111	58.7	59.8	115
Gross margins	38.7	39.6	39.1	34	(49)	40.2	39.1	(111)	41.3	40.2	(115)
Employee costs	11.3	12.9	14.1	278	124	12.8	13.1	27	12.8	12.4	(46)
Other expenses	17.2	16.8	17.3	13	54	17.9	17.2	(72)	18.5	18.2	(29)
EBITDA margins	10.2	9.9	7.6	(257)	(228)	9.5	8.8	(66)	10.0	9.6	(40)
Other income	0.6	0.3	0.7	8	43	0.6	0.4	(17)	0.6	0.6	5
Depreciation	1.6	1.8	2.3	70	46	1.7	1.9	18	2.0	1.7	(33)
Finance costs	0.6	1.5	1.5	83	(3)	0.8	1.4	51	1.4	0.8	(67)
PBT margins	9.3	6.6	6.4	(290)	(26)	7.8	6.4	(135)	7.0	8.0	101
Effective tax rates	23.5	27.9	(32.4)	(5,594)	(6,038)	24.0	9.0	(1,501)	25.2	24.2	(94)
PAT margins	7.1	4.8	8.4	133	365	5.9	5.8	(6)	5.2	6.1	83
Adj. PAT margins	7.1	4.8	1.9	-522	-290	5.9	3.8	-210	5.2	6.1	83

Source: Company, Anand Rathi Research

Details - Parent and Subsidiary

Fig 8 – Financials

Standalone	Q3 FY22	Q2 FY23	Q3 FY23	bps y/y	bps q/q	9M FY22	9M FY23	% Y/Y	FY21	FY22	bps y/y
Volume mix (%)											
Manufacturing – own	52.0	50.0	54.0	200	400	56.0	50.0	(600)	59.0	54.0	(500)
Manufacturing - partners	13.0	8.0	9.0	(31)	13	10.0	9.0	(100)	3.0	11.0	800
Trading	35.0	42.0	37.0	6	(500)	34.0	41.0	700	38.0	35.0	(300)
Total	100	100	100	-	-	100	100	-	100	100	-
Value mix (%)											
Manufacturing – own	62.0	60.0	63.0	100	300	65.0	61.0	(400)	69.0	64.0	(500)
Manufacturing - partners	11.0	7.0	8.0	(27)	14	9.0	8.0	(100)	2.0	9.0	700
Trading	27.0	33.0	29.0	7	(400)	26.0	31.0	500	29.0	27.0	(200)
Total	100	100	100	-	-	100	100	-	100	100	-
Quantitative details (m sq.mtrs.)											
Capacity	8.8	8.8	8.8	-	-	26.4	26.4	-	35.2	35.2	-
Utilisation (%)	95	88	88	(745)	-	87	98	1,136	77	90	1,330
Production	8.4	7.7	9.0	7.1	16.9	23.0	26.0	13.0	26.8	31.3	16.8
Partnerships & Trading	7.2	9.3	7.0	(2.8)	(24.7)	17.0	23.0	35.3	18.8	26.2	39.4
Sales	15.6	17.0	16.0	2.6	(5.9)	40.0	49.0	22.5	45.6	57.5	26.1
Realisation (Rs / sq.mtr.)	235	248	249	6.0	0.4	234	246	5.1	219	235	7.3
Subsidiary - GME (Rs m)											
Revenue	480	589	230	(52.1)	(61.0)	1,520	1,410	(7.2)	1,500	1,859	23.9
Gross profit	239	313	90	(62.3)	(71.2)	720	720	-	723	942	30.3
EBITDA	48	59	3	(93.8)	(94.9)	160	140	(12.5)	197	217	10.2
%				bps y/y	bps q/q			bps y/y			bps y/y
GPM	49.8	53.1	39.1	(1,066)	(1,401)	47.4	51.1	370	48	51	247
OPM	10.0	10.0	1.3	(870)	(871)	10.5	9.9	(60)	13	12	(146)
(cu.mtrs.)				% Y/Y	% Q/Q			% Y/Y			% Y/Y
Capacity	24,000	24,000	24,000	-	-	48000	48000	-	96,000	96,000	-
CU (%)	46.5	67.1	17.6	(2,891)	(4,956)	75.2	77.3	213	39.9	47.9	799
Production	11,156	16,112	4,218	(62.2)	(73.8)	36,093	37,114	2.8	38,282	45,955	20.0
Sales	11,063	13,936	4,512	(59.2)	(67.6)	34,565	31,651	(8.4)	33,285	41,757	25.5
Realisation (Rs / cu.mtr.)	43,388	42,265	50,975	17.5	20.6	43,975	44,548	1.3	45,065	44,519	(1.2)

Source: Company, Anand Rathi Research

Q3 FY23 Concall KTA

10%+ plywood volume growth for the next 2-3 years

- **Higher realisation due to premium category sales.** Sales of the premium category were maintained at 57% (55% the previous quarter). This helped to a Rs249 realisation per sq.mtr. with no price hike.
- **Business growth visible margins sustainable.** The company expects no major challenges ahead and 15%/20% volume/value growth in FY23 with similar margins in plywood.
- **Higher growth in the economy category.** The company is focused on premium products while the economy category is growing faster. The company operates in this category as well.
- **High timber prices, soft prices of chemicals continue.** Wood cost continues to trend higher across India. Timber prices in the north are higher than in the south. Benefits will arise from lower costs of chemicals (Gujarat) and of power.
- **Timber sourcing to gradually narrow down.** Timber-sourcing target 100-150km radius, currently 250-300km. The company has worked on the plantation side, too.
- **10%+ volume growth/10%+ margin likely.** Management hopes of a minimum 10% volume growth for the next 2-3 years. Growth would also depend, however, on raw material prices. The current 10% margin is likely to improve but some portion will be adjusted as investment in the business continues.
- **Demand encouraging, but belies expectation.** Demand looks encouraging on the back of healthy real-estate activity, and the shift toward the regulated segment, though a little below expectations.
- **Utilisation level at Sandila to be optimum in FY24.** Utilisation at the Sandila plywood plant (capacity: 13.5m sq.mtr.) is now 60%, and would touch 80-90% in FY24.
- **Partner plant at Hapur to commence production.** The partner's manufacturing plant at Hapur (capacity: 7.5m sq.mtr.) would start commercial production soon.
- **ESOP charge to cease by FY24.** The ESOP charge in FY23 would be Rs160m, with Rs30m in FY24 and nothing beyond, per current ESOP grants.
- **Capex.** Rs6.25bn capex for FY23, Rs250m-300m for FY24.
- **Net debt.** Net debt at the year-end is likely to be Rs6.5bn. Repayment each year of Rs500m, from FY25; 7% interest rate; foreign borrowing 35%.
- **Relwood not a competing product to plywood.** Relwood, a Reliance Industries' product, available for the last 4-5 years, is priced higher (1.6x-2x) and its use is limited. Hence, it does not compete with plywood.

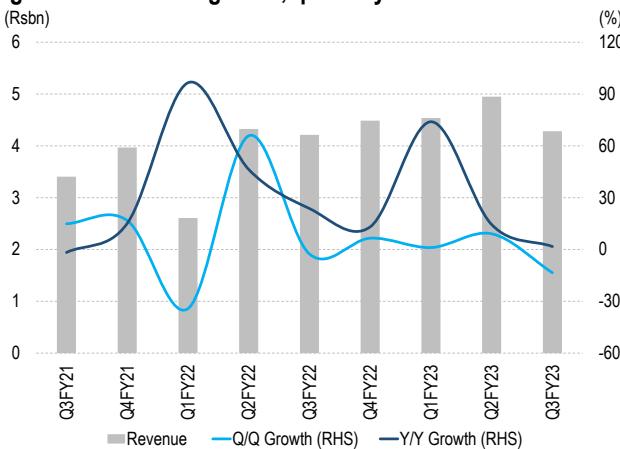
To focus on ramping up utilisation in MDF

- **Price drops likely in MDF as additional capacities come up.** MDF domestic production is now 2m cu.mtr. p.a. and expected to increase to 3.2m in the next 2-3 years. Price drops are possible as more stocks come to market.

- **No export obligation.** Western India has a ready MDF market and competition is already selling. Greenply has no export obligation but will explore export opportunities as well. MDF machines are from a German vendor.
- **Capex cost escalation due to change in scope of work.** MDF capex earlier was Rs5.5bn, which has increased 6-7% to Rs6bn, with no cost overruns as there are some changes as well. Depreciation and interest: Rs360m each p.a.
- **Cash breakeven in the first year (FY24) itself.** Trial production would be in Mar'23, commercial production in May'23, Rs3bn revenue in FY24, which would be cash breakeven. Premium products will be part of the ramp-up programme.
- **Pricing in line with competition, margins to rise with utilisation.** MDF pricing will be in line with competition. Benefit of freight will be passed on in the western region to gain market share. Margin of 20%+ is likely, post ramp-up: the first year it would be ~15%. The lowest margin in the past was 18-19%.
- **Largely plain MDF is imported.** Imports of MDF are usually of the plain variety.
- **Ground work to scale up the MDF category, complete.** A sales team for MDF has been hired for the first phase. Second-phase hiring after six months.
- **Manufactures a wide range of products in various thicknesses and sizes.** The company will manufacture every possible size, thicknesses ranging from 1.5mm to 35mm.

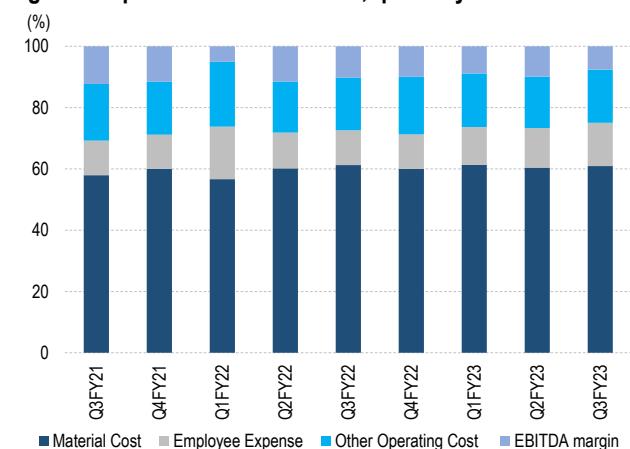
Story in charts

Fig 9 – Revenue and growth, quarterly trends



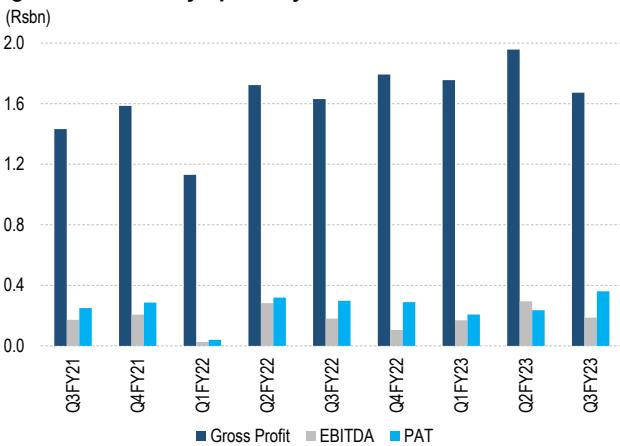
Source: Company, Anand Rathi Research

Fig 10 – Expense mix and EBITDA, quarterly trends



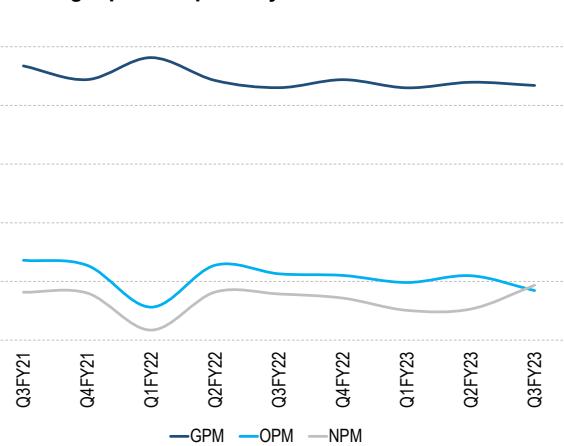
Source: Company, Anand Rathi Research

Fig 11 – Profitability, quarterly trend



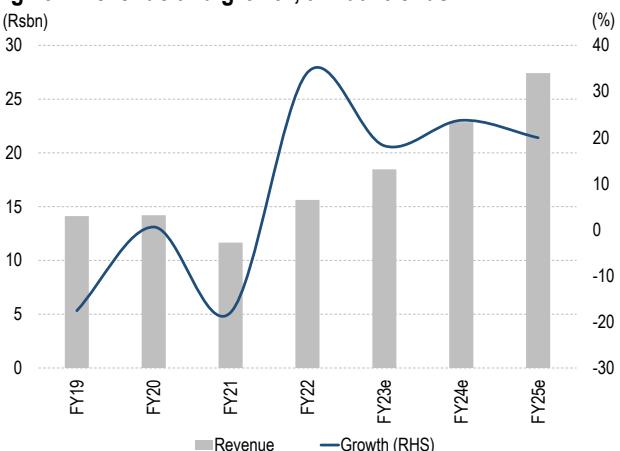
Source: Company, Anand Rathi Research

Fig 12 – Margin profile, quarterly trend



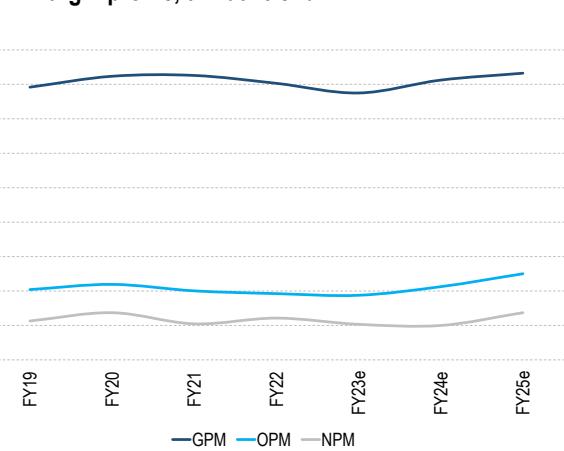
Source: Company, Anand Rathi Research

Fig 13 – Revenue and growth, annual trends



Source: Company, Anand Rathi Research

Fig 14 – Margin profile, annual trend



Source: Company, Anand Rathi Research

Valuation

Management expects the general shift to the formal (or non-regulated) segment to continue. Also, with significant growth momentum in real estate, especially semi-urban and rural, it expects good demand for wood panels. JV partners and expanded capacity would drive volume growth, and economies of scale would expand margins.

The short- to medium-term outlook for plywood seems encouraging. MDF, though a high-growth segment, is now seeing margins tapering. Higher plywood capacity utilisation is expected to drive FY24 revenue, and MDF production is likely to drive FY25 revenue. Margin tailwinds are expected as prices of chemicals have cooled and prices of logs are likely to be soft. Hence, medium- to long-term margins are expected to be north-bound.

The stock quotes at an attractive valuation; potentially a dark horse. Considering the 9M FY23 performance, we lower our FY23e/FY24e/FY25e earnings 10%/20%/12%. The company is anticipated to post 21%/26% revenue/earnings CAGRs over FY22-25.

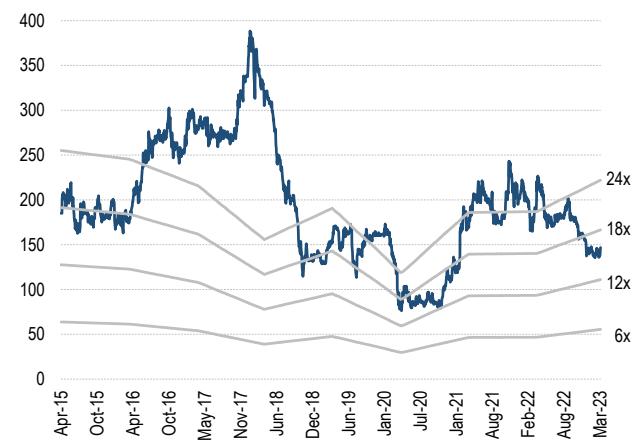
We believe that it could be a dark horse as it trades at an attractive valuation (much lower than its peers). Hence, we maintain our Buy rating on it, with a lower TP (Rs.230) based on 15x FY25e earnings, earlier Rs.262 based on 15x FY25e earnings.

Fig 15 – Change in estimates

(Rs m)	Old			New			% Var		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Revenue	18,192	22,522	28,295	18,474	22,858	27,419	1.6	1.5	(3.1)
EBITDA	1,876	2,757	3,714	1,732	2,429	3,427	(7.7)	(11.9)	(7.7)
EBITDA margin %	10.3	12.2	13.1	9.4	10.6	12.5	(94)	(162)	(63)
PAT	1,060	1,420	2,139	953	1,140	1,877	(10.1)	(19.7)	(12.3)
EPS (Rs)	8.6	11.6	17.4	7.8	9.3	15.3	(10.1)	(19.7)	(12.3)

Source: Anand Rathi Research

Fig 16 – One-year-forward P/E band



Source: Company, Anand Rathi Research

Fig 17 – P/E mean and Standard deviation



Source: Company, Anand Rathi Research

Risks

- **Demand slowdown.** Slowdown in real-estate activity and in home renovation might impact demand for the company's products.
- **Mounting competition.** With increased traction in real estate, construction companies are in a sweet spot and are expanding capacities. Competition might increase from existing/new entities in similar domains or forays into such verticals.
- **Assured raw material at reasonable prices is a challenge.** Margins are affected by higher prices of key raw material and adequate quantities unavailable in time.
- **Delay in ramping up the Gabon subsidiary.** A slow ramp-up in the face-veneer plant in Gabon may impact revenue growth and margins.
- **Delay in commissioning capacities.** Delays in commissioning the expanded capacities could slow the growth momentum.

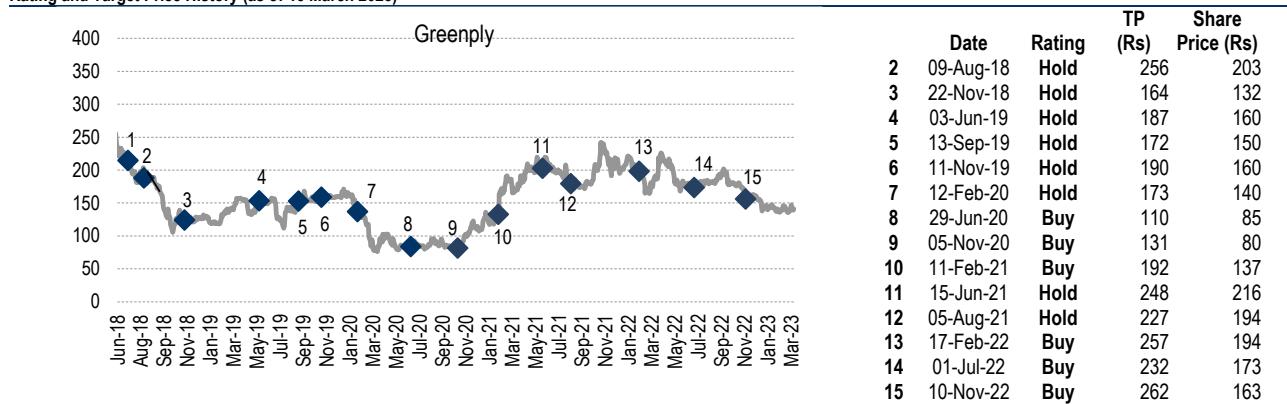
Appendix

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Ratings Guide (12 months)

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