

RBL BANK LTD

Industry Financial
Bloomberg RBK IN
BSE CODE 540065

Core Income Growth Continues to Remain at Healthy Level

RATING	NEUTRAL
CMP	564
Price Target	579
Potential Upside	3%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	652/439
Mkt Capital (Rs Cr)	23,982
Free float (%)	80%
Avg. Vol 1M (000)	897
No. of Shares (Cr)	43
Promoters Pledged %	0%

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3Q FY19 Result Update -

- ❑ RBK reported PAT growth of 36% YoY driven by healthy core income growth. NII grew at 40% YoY. NIM improved by 22 bps YoY at 4.1% due increase in yield.
- ❑ Fee income grew at 50% YoY on account of increase in its credit card (+102% YoY) and general banking business (+76% YoY). Other income grew by 45% YoY. Treasury income during the quarter was Rs 28 Cr.
- ❑ C/I ratio declined by 248 bps YoY at 51.6% due to lower opex growth. Management will add 25 more branches in Q4FY19 and another 60-70 branches will be added in FY20. Guidance of C/I ratio is 52% For FY19.
- ❑ Slippages increased by 49% on sequential basis amounting to Rs 211 Cr. Both GNPA and NNPA ratio declined by 2 bps QoQ and stood at 1.38% and 0.72% respectively. Provision has to Rs 161 Cr from Rs 140 Cr QoQ and from Rs 82 Cr YoY due to add-up of fresh slippages from Agri-loan. Net credit cost stands at 30 bps in Q3FY19. PCR stood at 63% as against 61% a quarter back.
- ❑ Advances grew robust at 35%/9% on YoY/QoQ basis mainly driven by retail asset (+50%/18% YoY/QoQ) and DF & FI business (+42%/7% YoY/QoQ). Deposits grew at 35%/9% on YoY/QoQ. CASA grew at 39%/10% on YoY/QoQ basis. CASA ratio stood at 24.6%.

View and Valuation

NIM has been expanding well as the share of high yield (Non-wholesale) portfolio has been continuously increasing and reached to 43% against 40% a year back. Growth in micro banking has been stellar which has benefited in NIM expansion. Yield in wholesale book has also inched up well due to MCLR reset. However, cost of fund has also inched up significantly but change in assets mix has played well. Fee income from credit card has shown an impressive growth. Its contribution has reached to 41% of the fee income. Loan book growth continues to remain healthy and is expected to grow around 30-35% going ahead. There has been spike in slippages mainly on account of agriculture-based slippages. Management highlighted the increase in slippages due to loan waiver announcement in retail agriculture part. We are cautious on increasing pain over agriculture portfolio due to election environment in the country. Hence, we have increased our credit cost estimate factoring higher slippages which reduces our PAT estimates by -3%/-4% for FY19/FY20e. RBLBANK is currently trading at 2.8x BVPS FY20e. We maintain our NEUTRAL stance on the stock given the limited upside from our target price of Rs 579.

Key Risks to our rating and target

- ❑ Deterioration in assets quality will lead to increase in credit cost.
- ❑ Slow down in retail segment growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
NII	819	1221	1766	2484	3319
PPP	542	920	1331	1910	2562
PAT	292	446	635	884	1289
NIM %	2.6	3.0	3.4	3.8	3.8
EPS (Rs)	9	12	15	21	31
EPS growth (%)	28	32	27	39	46
ROE (%)	11.2	12.2	11.5	12.5	16.0
ROA (%)	0.9	1.0	1.1	1.3	1.4
BV	92	116	159	177	205
P/B (X)	0.0	4.3	3.0	3.2	2.7
P/E (x)	0.0	41.6	31.5	26.8	18.4

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3Q FY 19 Results
PAT missed our estimates
Strong performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Interest Inc.	1,151	1,223	1,364	1,463	1,639	42%	12%	3,713	4,508	21.4%
Interest Exp.	684	722	812	870	984	44%	13%	2,492	2,741	10.0%
NII	467	500	553	593	655	40%	10%	1,221	1,766	44.6%
Other Income	258	312	326	333	374	45%	12%	755	1,068	41.4%
Total Income	726	812	879	926	1,029	42%	11%	1,977	2,834	43.4%
Opex Exp.	392	429	446	477	531	35%	11%	1,056	1,503	42.3%
PPP	333	383	432	449	498	49%	11%	920	1,331	44.6%
Provisions	82	113	140	140	161	95%	15%	239	365	52.6%
PBT	251	270	292	309	338	35%	9%	682	967	41.8%
Tax	86	92	102	105	113	31%	7%	235	331	40.8%
Net Profit	165	178	190	205	225	36%	10%	446	635	42%

NIM continues to improve.

NIM increased during the quarter to 4.12% against 3.90% on yearly basis whereas it increased by 4 bps on QoQ basis. Yield on advances increased by 80 bps YoY (+ 30 bps QoQ) to 11.20%. Yield on wholesale segment increased by 17 bps QoQ, while yield on non-wholesale segment increased by 100 bps YoY (+20 bps QoQ). Cost of deposit increased by 10 bps QoQ and 40 bps on YoY basis. Total cost of funds increased by 50 bps YoY/QoQ at 6.60%. Management expects Cost of fund to increase going ahead, however with assets mix, MCLR increase and funding mix towards CASA, refinance book and retail term deposits, NIM will sustain at current levels.

Strong traction in fee income.

Fee income grew by 50% YoY driven by healthy growth in income from general banking & credit card business. Fee income from general banking & credit card grew by 76% YoY and 102% YoY. Card business contributes 41% of the total fee income. Total other income increased by 45% YoY. Treasury gain remained same at Rs 28 Cr on YoY basis.

C/I ratio declined.

C/I ratio declined by 248 bps YoY at 51.6% due to lower opex growth. Management will add 25 more branches in Q4FY19 and another 60-70 branches will be added in FY20. Guidance of C/I ratio is 52% For FY19. Operating expenses grew by 35% YoY led by 48% rise in other expenses. However continuous investment made in franchise, branches, technology, retail asset business will lead the C/I ratio to be in the range of 52%-53% in FY19.

Favorable change in loan mix.

Advances grew by 35% YoY led by strong growth across all the segments. Wholesale and non-wholesale book grew by 28% and 47% respectively. Under wholesale book corporate & Institutional Banking (C&IB) and commercial banking (CB) grew by 28% and 27% respectively. On the other side under non-wholesale side, retail asset grew by 49% YoY and development banking & financial inclusion business grew by 42%. Micro banking growth has picked up the pace and grew by 46% YoY. The mix of non-wholesale book has increased to 43% against 40% a year back.

Slippages remained at elevated level.

Slippages increased to Rs 211 Cr from Rs 142 Cr a quarter back. GNPA ratio declined by 2 bps at 1.38% on QoQ basis and NNPA also decline by 2 bps to 0.72%. Standard restructured to advances stood at 0.09% (vs 0.07% a quarter back). Security receipt book declined marginally by 1 bps at 0.05% on QoQ basis. CB gross NPA declined by 2% QoQ and retail NPA increased by 43% QoQ. DB&FI gross NPA declined by 31% QoQ. Stress asset declined by 66 bps to 0.81%. PCR increased to 63% from 61% a quarter back.

Other highlights.

CAR ratio during the quarter was 13.8% as against 13.7% a quarter back. Tier-1 ratio remained stable at 12.5% on QoQ basis.

Concall Highlights

- ❑ RBL Bank has increased yields of 10bps to 35bps on advances to pass on increased cost of fund, currently yield on advances stands at 11.2% corresponding to 10.4% YoY.
- ❑ As on current quarter 3% of total advances are in agricultural segment and it is to get reduced in future until management sees any change in market.
- ❑ Primary growth for retail assets were credit card and LAP. Delinquencies at LAP was stable at 0.7%.
- ❑ No big lending has been made in real estate segment, RBL is very small in this segment and existing loans are mostly from retail space considered provided as working capital backed by pledging property.
- ❑ Management to add-up 25 more branches in 4QFY19 and 60 to 70 branches in FY20 to increase deposits, expand the credit card segment and explore more opportunities in quality lending in future.
- ❑ In term deposit RBL looks like having a stronger customer relation as <1year term deposit has been consistent stating 58% in FY17 and being the same 58% at the end of FY18.>>Charges made on processing fee stands at 0.1% to 1.2% as it differs from corporate loan and retail loan.
- ❑ Charges made on processing fee stands at 0.1% to 1.2% as it differs from corporate loan and retail loan.
- ❑ Credit card fee is to stand at 50% to 52% of total revenue which is tend to drive stable in future, GNPA of credit card to stand at 1% to 1.1% as on 3QFY19.
- ❑ Increase in additional numbers on credit cards was due to festive season which averaged 1 lakh credit cards acquired a month for the current quarter which cumulates to 14.3 lakhs of credit cards in use and this trend is to follow in future.
- ❑ Cost of credit card breakeven around 16 to 18 months' time period and fee charged to range around Rs 4000 to Rs 5000 per card.
- ❑ From additional credit cards acquired 60% are from co-branded cards and 40% are own branded cards and from total credit card portfolio 45% are co-branded cards and the rest 55% are of other portfolio cards, this trajectory is to continue in future.
- ❑ In hedging frame, RBL hedges its entire dollar to rupee lending (Cross lending) and does not hedge dollar to dollar lending.
- ❑ Provision has been increased to Rs 161 Cr from Rs 140 Cr QoQ and from Rs 82 Cr YoY due to add-up of fresh slippages from Agri-loan.
- ❑ Management outlooks cost to income ratio to be at 52% in FY19 annually, NIM to continue at the same rate in the future and asset quality to remain more or less the same in FY20.
- ❑ Management will raise Tier 2 capital in CY20 or in early FY19 after analyzing market conditions, at present increase of 10bps in Tier 2 capital was through lower RWA benefited from MTM profits and disbursement of additional capital through better rating (higher than BBB+) given by external agency.
- ❑ Management may raise capital in FY20.Sent on:MonFrom:Deepak Kumar Ok for RBL BankRemoved on Jan 28 at 7:56 pm

Profitability Matrix

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	51.0	54.2	54.0	52.8	50.8	51.5	51.6	-2.48	0.05
Empl. Cost/ Tot. Exp. %	41.1	40.1	36.6	30.4	34.3	31.6	30.9	-5.72	-0.72
Other Exp/Tot. Exp.%	58.9	59.9	63.4	69.6	65.7	68.4	69.1	5.72	0.72
Provision/PPP %	30.3	24.7	24.7	29.5	32.5	31.1	32.2	7.55	1.13
Tax Rate %	35.0	34.0	34.2	34.1	34.9	33.9	33.3	-0.83	-0.55
Int Exp./Int Inc. (%)	63.7	61.5	59.4	59.1	59.5	59.5	60.0	0.64	0.55
Other Inc./Net Inc. %	40.4	36.5	35.6	38.4	37.1	36.0	36.3	0.76	0.38
PAT/ Net Income %	22.2	22.8	22.8	21.9	21.6	22.1	21.9	-0.91	-0.21
RoE %	12.7	10.5	10.2	10.9	11.2	11.6	11.7	1.51	0.14
RoA %	1.2	1.2	1.2	1.3	1.3	1.3	1.3	0.04	0.00

Margin Performance

Margin %	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.6	10.6	10.4	10.5	10.8	10.9	11.2	0.80	0.30
Cost of Deposits	6.5	6.4	6.1	6.2	6.4	6.4	6.6	0.50	0.20
Cost Of Funds	6.7	6.6	6.4	6.5	6.6	6.7	6.8	0.40	0.10
NIM	3.5	3.7	3.9	4.0	4.0	4.1	4.1	0.22	0.04

Exhibit: Yield and Cost

Both yield on total assets and cost of fund increased.

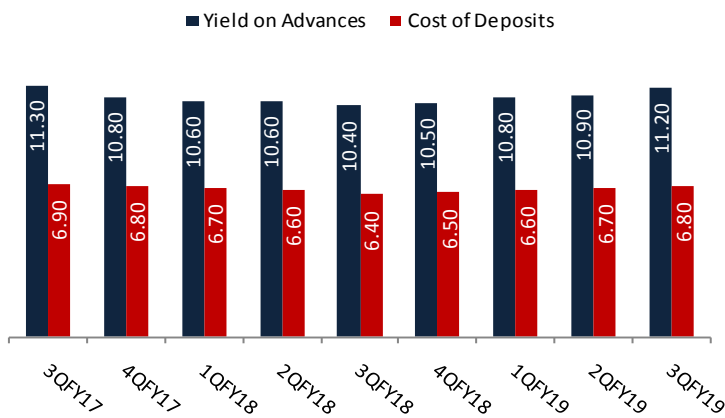
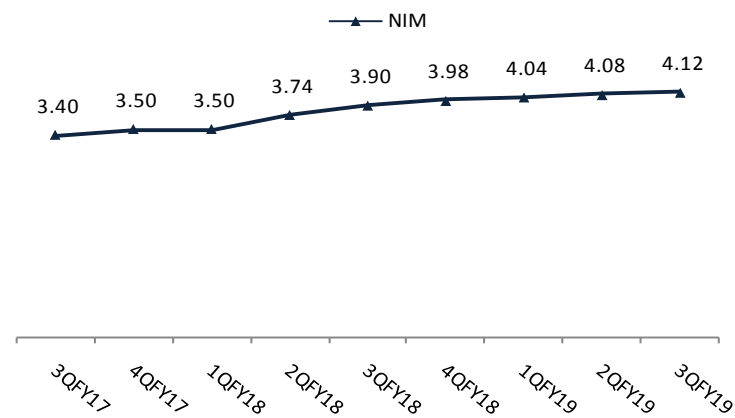


Exhibit: Net Interest Margin

NIM on improving trend.



Other Income Break Up- smart growth in distribution income & credit card business

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Core Fees	153	204	182	202	230	270	289	325	346
Trading - FICC	29	33	75	39	28	40	36	7	28
Other Income	182	237	257	241	258	312	326	333	374
Fee Income/ Advances %	1	1	1	1	1	1	1	1	1
Other Inc./ Total Inc. %	36	40	40	36	36	38	37	36	36
Total core Fees	153	204	182	202	230	270	289	325	346
Growth YOY%	54.5	45.4	48.8	38.1	50.3	31.7	57.9	60.0	50.0
Total Other Income	182	237	257	241	258	312	326	333	374
Growth YOY%	66.2	65.8	53.3	42.6	41.7	31.9	26.9	38.0	45.0

Exhibit: Fee Income/Advances %

Fee income remains robust.

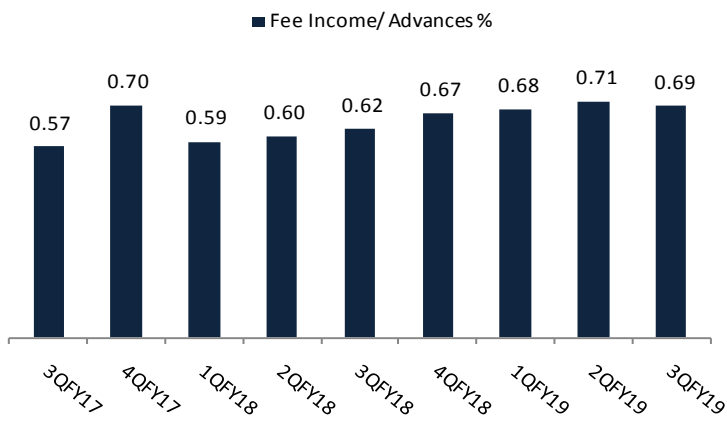
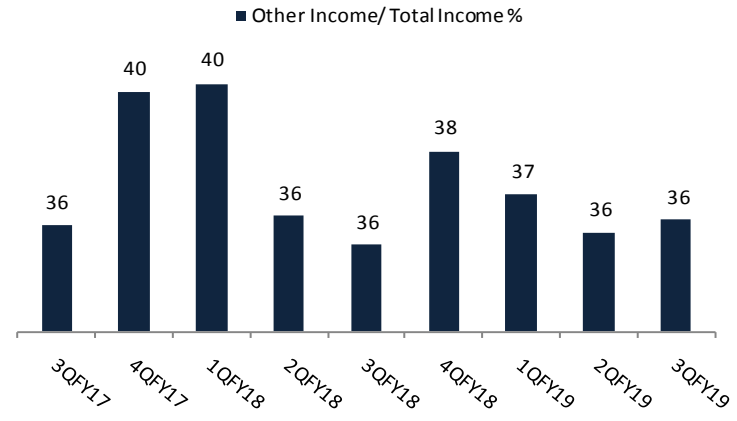


Exhibit: Other Income/ Total Income %



Asset Quality

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	456	487	580	567	597	644	696	20%	8%
GNPA %	1.46	1.44	1.56	1.40	1.40	1.40	1.38	-0.18	-0.02
NNPA (Rs in Cr)	250	261	358	314	316	339	358	0%	6%
NNPA %	0.81	0.78	0.97	0.78	0.75	0.74	0.72	-0.25	-0.02
Slippages (Rs in Cr)	152	92	210	115	148	142	211	0%	49%
Std Restructured Assets %	0.24	0.41	0.18	0.08	0.10	0.07	0.09	-0.09	0.02
Net Stress Assets %	1	1	1	1	1	1	1	-0.30	-0.01
PCR %	58	58	53	58	60	61	63	10.68	1.77

GNPA Composition (%) – Segment-wise

	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
C&IB	13.27	29.05	22.49	21.10	24.53	14.66	15.49	92.10	92.10
CB	56.32	39.01	31.40	25.37	18.23	22.30	36.70	255.10	249.60
BBB/Retail Assets	21.66	21.35	18.89	21.28	19.11	19.94	28.11	200.70	286.50
>>LAP	4.49	5.57	3.34	4.11	4.36	4.57	5.14	28.90	-
>>BIL	3.79	4.45	4.30	5.05	4.43	5.58	5.42	25.40	-
>>PIL	0.98	1.20	1.24	1.58	1.47	2.08	2.67	16.60	-
>>Cards	2.95	2.74	3.14	3.24	3.33	3.51	5.59	39.90	-
>>Others	9.48	7.39	6.88	7.31	5.52	4.18	3.78	22.00	-
Agri	4.14	5.07	5.11	5.42	9.93	14.38	-	-	128.60
DB&FI	4.60	5.51	22.10	26.83	28.20	28.72	19.70	97.00	67.30

Exhibit: Asset Quality

Assets quality improved.

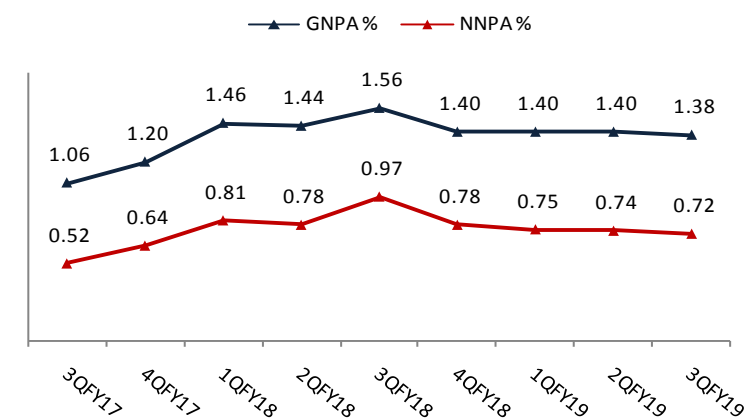


Exhibit: Provisions

PCR improved.

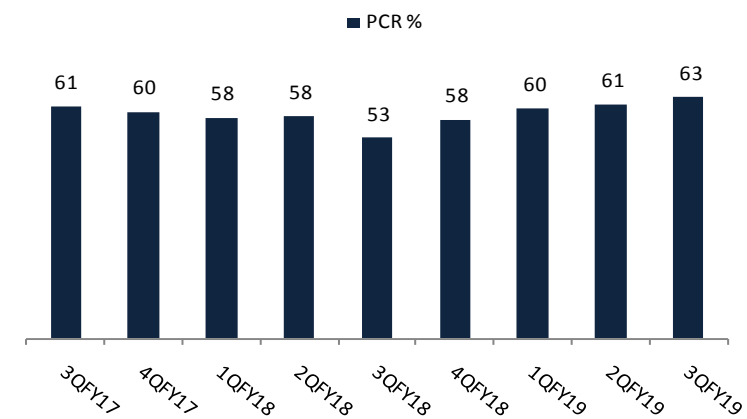


Exhibit: Advances Performance

Growth in advances remained robust.

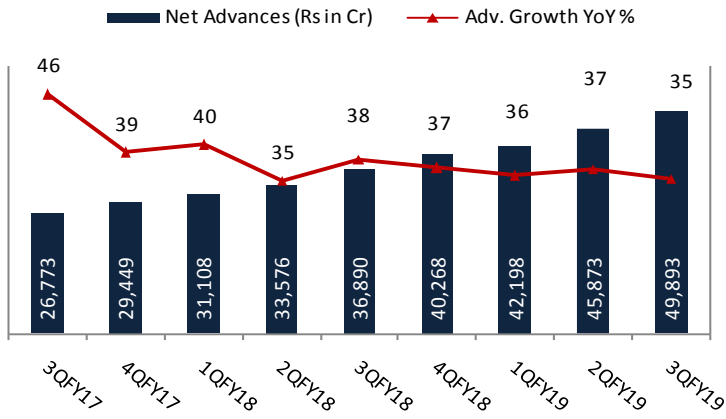


Exhibit: Advances Breakup%

Unsecured loan picking-up

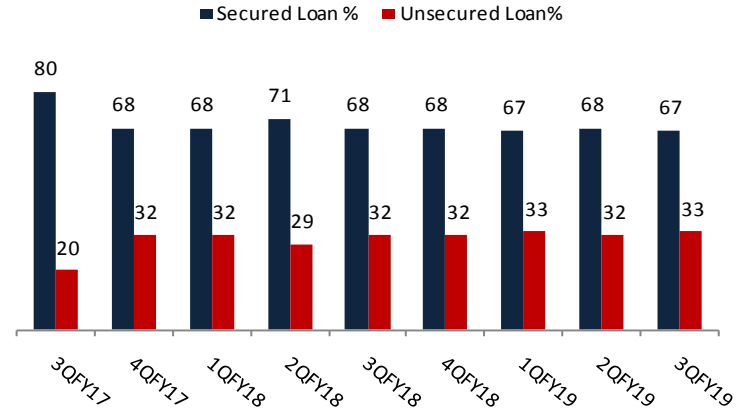


Exhibit: Deposits Performance

Deposits growth increased.

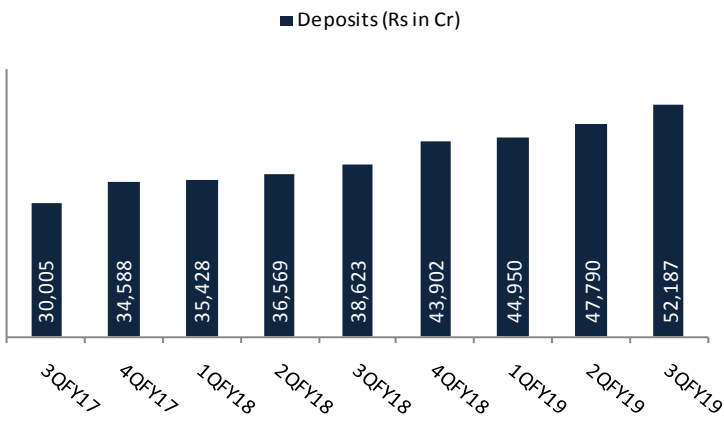


Exhibit: CASA Performance

CASA ratio remained stable

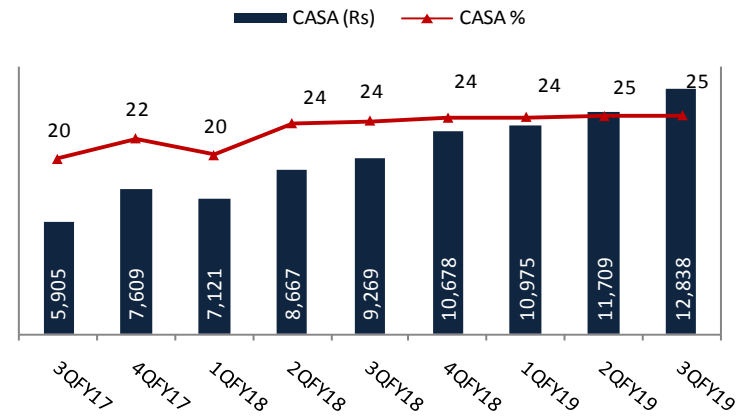


Exhibit: Credit Deposit Ratio

Declined

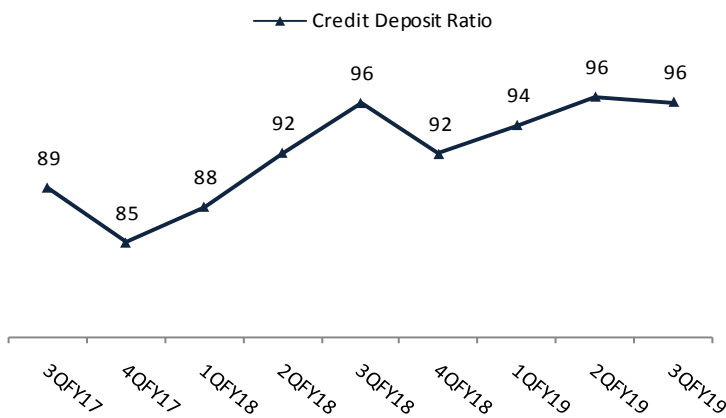
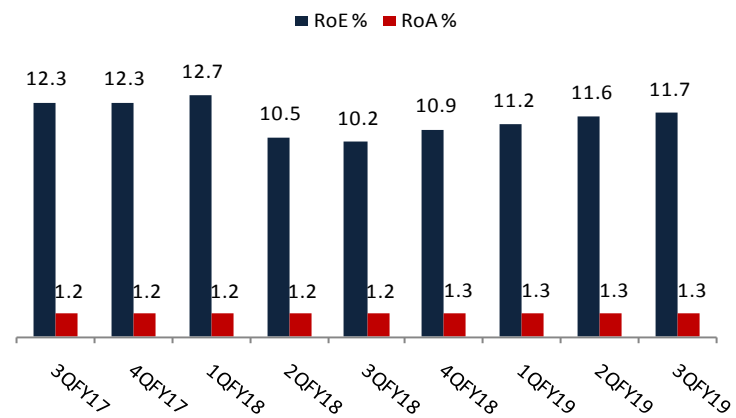


Exhibit: Return Ratios

Return ratio profile.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	253	272	293	325	375	420	421	421
>> Equity Capital	253	272	293	325	375	420	421	421
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1354	1743	1937	2665	3960	6264	7041	8204
Networth	1607	2015	2230	2989	4336	6684	7462	8625
Deposits	8341	11599	17099	24349	34588	43902	56799	77941
Change (%)	76	39	47	42	42	27	29	37
>> CASA Deposits	1644	2370	3157	4529	7609	10678	13973	20265
Change (%)	61	44	33	43	68	40	31	45
Borrowings	2737	3896	6963	10536	7980	9262	11551	14644
Other Liabilities & Provisions	279	689	812	1287	1771	2003	2434	2923
Total Liabilities	12963	18198	27105	39161	48675	61851	78246	104132
Cash & Bank	689	1192	2170	2450	4194	4284	5435	6482
Investments	5571	6518	9792	14436	13482	15448	16472	24941
Change (%)	139	17	50	47	-7	15	7	51
Advances	6376	9835	14450	21229	29449	40268	53959	70147
Change (%)	54	54	47	47	39	37	34	30
Fixed Assets	94	134	164	177	259	334	367	404
Other Assets	233	518	528	869	1292	1517	2013	2158
Total Assets	12963	18198	27105	39161	48675	61851	78246	104132

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Interest income	879	1,352	1,953	2,744	3,713	4,508	6,217	8,554
Interest expended	622	1,010	1,397	1,925	2,492	2,741	3,733	5,235
Net Interest Income	258	342	556	819	1,221	1,766	2,484	3,319
Change (%)	38	33	63	47	49	45	41	34
Other Income	126	261	403	491	755	1,068	1,438	1,888
Change (%)	88	106	55	22	54	41	35	31
>> Core Fee Income	97	217	341	430	628	886	1,327	1,685
>> Treasury Income	29	44	63	61	130	182	108	203
>> Others	-	-	-	-	(2)	1	3	-
Total Net Income	384	603	960	1,310	1,977	2,834	3,922	5,208
Operating Expenses	227	424	600	767	1,056	1,503	2,012	2,645
Change (%)	63	87	41	28	38	42	34	31
>> Employee Expenses	125	185	301	370	446	551	645	875
Pre-provisioning Profit	157	179	360	542	920	1,331	1,910	2,562
Change (%)	37	14	102	51	70	45	43	34
Provisions	64	86	153	114	239	365	571	609
Change (%)	31	34	78	(25)	109	53	57	7
PBT	93	93	207	428	682	967	1,339	1,953
Tax	-	-	-	136	235	331	455	664
Profit After Tax	93	93	207	292	446	635	884	1,289
Change (%)	41	(0)	124	41	53	42	39	46

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Balance Sheet Metrics								
Loan Growth (%)	54	54	47	47	39	37	34	30
Deposit Growth (%)	76	39	47	42	42	27	29	37
C/D Ratio (%)	76.4	84.8	84.5	87.2	85.1	91.7	95.0	90.0
CASA (%)	19.7	20.4	18.5	18.6	22.0	24.3	24.6	26.0
Investment/Deposit (%)	66.8	56.2	57.3	59.3	39.0	35.2	29.0	32.0
CRAR (%)	17	15	13	13	14	15	14	12
>> Tier 1 (%)	17	14	13	11	11	14	12	10
>> Tier 2 (%)	0	0	0	2	2	2	2	1

Assets Quality Metrics

Gross NPA (Rs)	26	78	111	208	356	567	733	937
Gross NPA (%)	0.4	0.8	0.8	1.0	1.2	1.4	1.4	1.3
Net NPA(Rs)	7	31	39	124	190	314	374	468
Net NPA (%)	0.1	0.3	0.3	0.6	0.6	0.8	0.7	0.7
Slippages (%)	1	1	0	1	3	2	2	1
Provision Coverage (%)	-	-	-	56	60	58	63	65
Provision/Average Advances (%)	1.2	1.1	1.3	0.6	0.9	1.0	1.2	1.0

Margin Metrics

Yield On Advances (%)	11.7	11.4	11.6	10.9	10.4	9.8	10.7	11.2
Yield On Investment (%)	6.5	6.8	6.4	6.2	7.0	6.9	6.8	7.1
Yield on Earning Assets (%)	9.1	9.2	9.2	8.8	9.0	8.7	9.4	9.9
Cost Of Deposits (%)	7.4	7.7	7.6	7.3	6.7	6.0	6.2	6.5
Cost Of Funds (%)	9.4	10.0	9.6	7.3	6.4	5.7	6.1	6.4
Spread (%)	(0.3)	(0.8)	(0.3)	1.4	2.7	3.1	3.3	3.5
NIM (%)	2.7	2.3	2.6	2.6	3.0	3.4	3.8	3.8

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	70.7	74.7	71.5	70.1	67.1	60.8	60.0	61.2
Fee Income/NII (%)	-	-	-	-	51.4	50.2	53.4	50.8
Cost to Income (%)	59.1	70.4	62.5	58.6	53.4	53.0	51.3	50.8
Cost on Average Assets (%)	2.3	2.9	2.8	2.4	2.6	2.9	3.0	3.1
Tax Rate (%)	-	-	-	31.7	34.5	34.3	34.0	34.0

Valuation Ratio Metrics

EPS (Rs)	3.7	3.4	7.1	9.0	11.9	15.1	21.0	30.6
Change (%)	20.0	(7.1)	107.3	27.6	32.0	27	38.8	45.8
ROAE (%)	6.7	5.1	9.8	11.2	12.2	11.5	12.5	16.0
ROAA (%)	0.9	0.6	0.9	0.9	1.0	1.1	1.3	1.4
Dividend Payout (%)	-	-	-	-	15.1	13.9	11.9	9.8
Dividend yield (%)	-	-	-	-	0.4	0.4	0.4	0.5
Book Value (Rs)	63.5	74.1	76.0	92.1	115.6	159.3	177.3	204.9
Change (%)	19	17	3	21	26	38	11	16
ABVPS (Rs)	63	73	75	88	110	152	168	194
P/B (X)	-	-	-	-	4.3	3.0	3.2	2.7
P/E (X)	-	-	-	-	41.6	31.5	26.8	18.4

Financial Details

Exhibit: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>Interest Income</i>	8.7	8.6	8.3	8.5	8.2	8.9	9.4
<i>Interest expended</i>	6.5	6.2	5.8	5.7	5.0	5.3	5.7
<i>Net Interest Income</i>	2.2	2.5	2.5	2.8	3.2	3.5	3.6
<i>Non-Fund Based Income</i>	1.7	1.8	1.5	1.7	1.9	2.1	2.1
>> Core Fee Income	1.4	1.5	1.3	1.4	1.6	1.9	1.8
>> Trading and Other Income	0.3	0.3	0.2	0.3	0.3	0.2	0.2
Core Operating Income	3.6	4.0	3.8	4.2	4.8	5.4	5.5
<i>Total Income</i>	3.9	4.2	4.0	4.5	5.1	5.6	5.7
Total Operating Expenses	2.7	2.6	2.3	2.4	2.7	2.9	2.9
>> Employee Expenses	1.2	1.3	1.1	1.0	1.0	0.9	1.0
>> Other Expenses	1.5	1.3	1.2	1.4	1.7	2.0	1.9
<i>Operating Profit</i>	1.1	1.6	1.6	2.1	2.4	2.7	2.8
Provisions	0.6	0.7	0.3	0.5	0.7	0.8	0.7
Others	-	-	-	-	-	-	-
PBT	0.6	0.9	1.3	1.6	1.7	1.9	2.1
Tax	-	-	0.4	0.5	0.6	0.7	0.7
<i>PAT/RoAA</i>	0.6	0.9	0.9	1.0	1.1	1.3	1.4
<i>Equity Multiplier (x)</i>	8.6	10.7	12.7	12.0	10.0	9.9	11.3
<i>ROAE</i>	5.1	9.8	11.2	12.2	11.5	12.5	16.0

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Analyst's ownership of the stocks mentioned in the Report	NIL
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