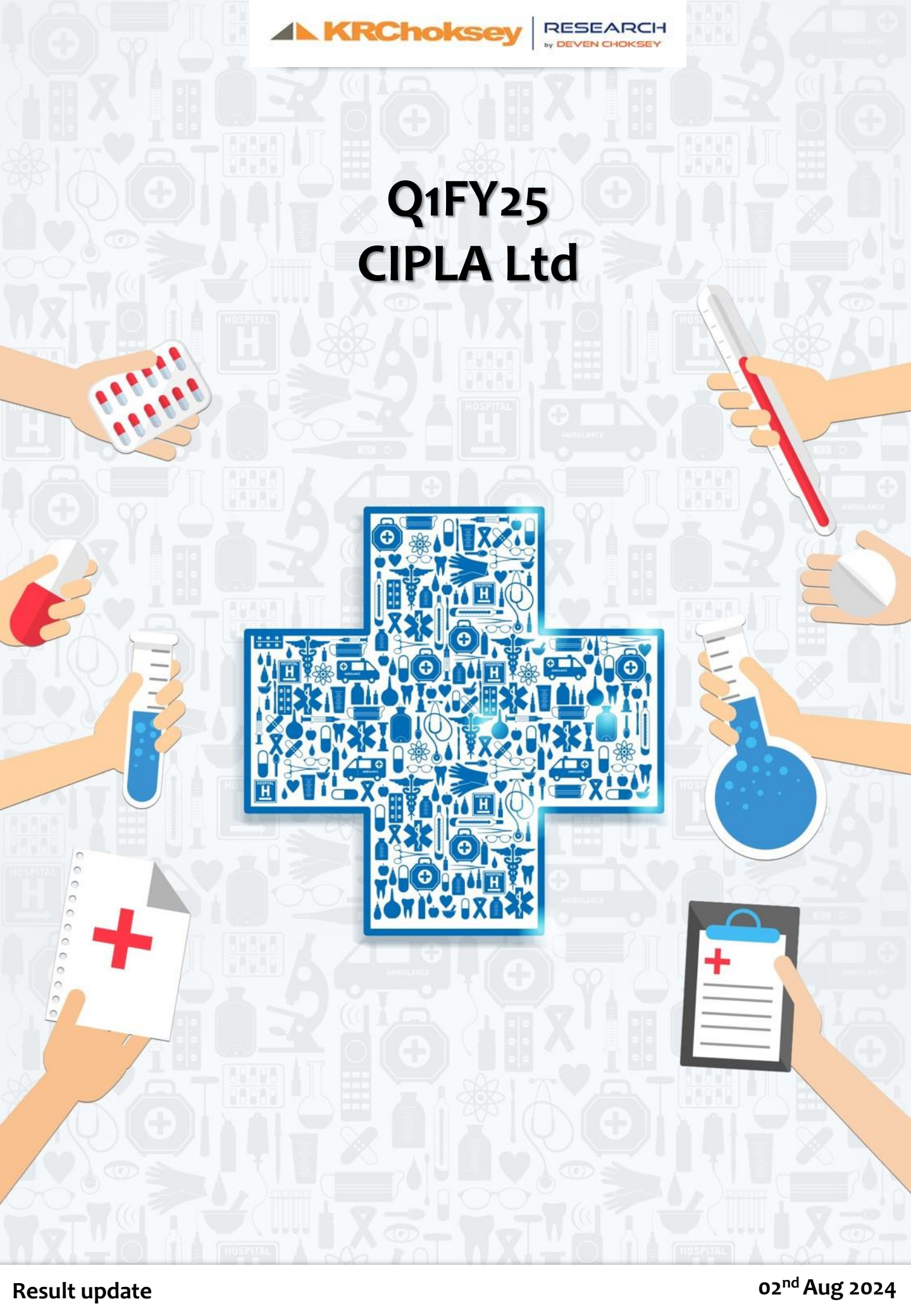


# Q1FY25 CIPLA Ltd



**Cipla Ltd.**

Improving visibility in North America's sales to aid in growth

CMP INR 1,529*	Target INR 1,633	Potential Upside 6.8%	Market Cap (INR Mn) INR 12,32,326	Recommendation <b>ACCUMULATE</b>	Sector Pharmaceuticals
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**Result Highlights of Q1FY25:**

- The Q1FY25 performance was slightly below estimates with Cipla's sales/Gross Profits/EBITDA and PAT for Q1FY25 deviating by -3.2%/-1.6%/-3.2%/-2.3% from our estimates. It was due to weaker than expected performance in SAGA and API partially offset by marginally higher than estimated, US (+3.2%) and Emerging Markets (+3.8%).
- We cut down our earning estimates by 10% and 7% for FY25E and FY26E, respectively. **We increase the PE multiple to 27.0x (earlier 25.0x) applying on FY26E EPS of INR 60.6 (earlier INR 65.3) to account for likelihood of strong product launches in H2FY25E and FY26E in the US market. As such, we maintain the TP of INR 1,633; however, downgrade CIPLA's rating to ACCUMULATE from BUY as the upside is at 6.8% from CMP.**

**MARKET DATA**

Shares outs (Mn)	807
Equity Cap (INR Mn)	2,68,023
Mkt Cap (INR Mn)	12,32,326
52 Wk H/L (INR)	1,600/1,132
Volume Avg (3m K)	2,129
Face Value (INR)	2
Bloomberg Code	CIPLA IN

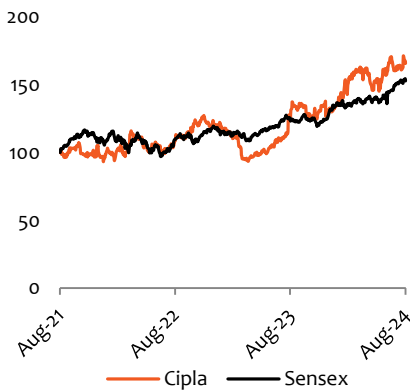
**KEY FINANCIALS**

INR Millions	FY22	FY23	FY24	FY25E	FY26E
Revenue	2,17,633	2,27,531	2,57,741	2,77,595	3,04,862
EBITDA	45,528	50,270	62,911	67,269	75,911
Adj. PAT	26,989	26,195	39,267	43,666	48,956
EPS (INR)	33.5	32.4	48.6	54.0	60.6
EBITDA Margin	20.9%	22.1%	24.4%	24.2%	24.9%
NPM	12.4%	11.5%	15.2%	15.7%	16.1%
P/E (x)	46.2	47.7	31.8	28.6	25.5

Source: Company, KRChoksey Research

**Strong growth in the US and EMs drove performance in Q1FY25:**

- The Q1FY25 performance was slightly below estimates. Overall revenue increased 5.8% Y-o-Y (+8.6% Q-o-Q) to INR 66,939 Mn in Q1FY25 (vs. our estimate of INR 69,125 Mn, miss of -3.2%).
- The revenue was lower than estimates, majorly due to lower than expected performance in SAGA (-15.5% vs. estimates), and APIs (-31.4%); partially offset by higher than estimated revenue from North America market (+3.2%), Emerging Markets - EM (+3.8%), and in line performance in India (-0.1%).
- India, North America, and SAGA stood at 43%, 31% and 10% of revenue in Q1FY25, respectively. North America's revenue grew 12.6% Y-o-Y (+10.6% Q-o-Q) to USD 250 Mn, driven by positive momentum in differentiated portfolio of products. It was largely due to Lanreotide ANDA launch, gain in Albuterol's MS as well as marginal rise in gRevlimid sales.
- Albuterol's MS increased to 17.0% (IQVIA), for the week ending June 21, 2024 (vs. earlier foreseen of 15.5% by April 24) while Lanreotide 505(b)(2) product almost retained its MS at 20.0% in Q1FY25 vs. 20.8% in Q4FY24 and 18.0% in Q1FY24.
- The company has also launched generic of Lanreotide 505(b)(2) to enhance its revenue potential from the product.

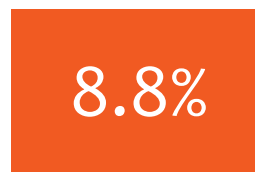
**SHARE PRICE PERFORMANCE**

**MARKET INFO**

SENSEX	80,982
NIFTY	24,718

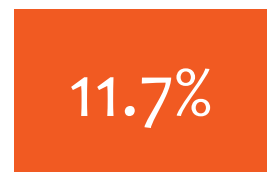
**SHARE HOLDING PATTERN (%)**

Particulars	Jun-24(%)	Mar-24(%)	Dec-23(%)
Promoters	30.9	33.5	33.5
FIIIs	27.8	25.8	25.7
DIIIs	24.7	24.1	24.3
Others	16.6	16.6	16.5
Total	100.0	100.0	100.0

\*Based on today's closing



Revenue CAGR between FY24 and FY26E



Adj. PAT CAGR between FY24 and FY26E

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- Rx business maintained its no. 1 rank as per IQVIA MAT May 24 in South Africa.
- India business grew at 4.5% Y-o-Y (+19.9% Q-o-Q) to Rs. 28,980 Mn in Q1FY25 driven by growth in branded Rx as it increased 10.0% Y-o-Y in Q1FY25; partially offset by change in distribution model in Gx business.
- The chronic sales in India increased to 61.5% (as per IQVIA MAT June 24), up 106 bps Y-o-Y in Q1FY25 as respiratory, cardiac, and urology grew faster than the market. The change in distribution model stands completed as of Q1FY25 and is back on growth path through expanded offerings. Excluding the impact of the change in distribution model, the India business grew at 9.0% Y-o-Y in Q1FY25.
- Consumer Health in India posted a weaker 3.0% Y-o-Y growth in Q1FY25, due to high base effect.
- South Africa market rose 2.7% Y-o-Y (-8.7% Q-o-Q) to INR 6,950 Mn in Q1FY25, driven by uptick in key therapies, new launches, and OTC portfolio.

### Profitability grows in line with improved products mix, price increases taken, lower opex, and favorable forex:

- The company's Gross Profits grew 10.0% Y-o-Y (+9.4% Q-o-Q) to INR 45,011 Mn (a miss of 1.6% from the estimates) in Q1FY25 as GPMs increased 258 bps Y-o-Y (+50 bps Q-o-Q) to 67.2% (vs. our estimate of 66.2%) in Q1FY25.
- However, EBITDA increased at a better pace of 14.9% Y-o-Y (+30.4% Q-o-Q) to INR 17,158 Mn (a miss of 3.2%) in Q1FY25 as EBITDA margins improved 428 bps Y-o-Y (+203 bps Q-o-Q) to INR 25.6% (vs. our estimate of 25.7%) for Q1FY25. This was due to improved products mix, calibrated price increases taken, lower opex and favorable forex.
- Consequently, net income increased 18.3% Y-o-Y (+25.4% Q-o-Q) to INR 11,776 Mn in Q1FY25 (a miss of 2.3% from estimates).

### Key Concall Highlights:

#### Guidance

- EBITDA margin to be in the range of 24.5%-25.5% for FY25E.
- ROIC to be around 30% for FY25E.
- R&D to be in the range of 5%-6% for FY25E.
- In terms of US pipeline – gAdvair will be filed by Q4FY25E and will be launched in H1FY26E. 2 Peptide products likely be launched in H2FY25E as soon as the approvals come in.
- US quarterly revenue run rate to be in the region of USD 235 Mn – USD 240 Mn.
- With tender market revenue kicking in, gross margins may reduce in the next 3 quarters; however in seasonally strong quarter of Q3FY25E, for respiratory products, they may remain stable vs. Q1FY25.
- Generic Price erosion will not be in double-digit, in short – medium term.
- Capex to be in the range of INR 15,000- INR 18,000 Mn for FY25E due to de-risking in the US and strategic capex in India for respiratory segment.

#### Regulatory updates

- Patalganga and Kurukumbh facilities have received USFDA VAI status.
- Goa facility went through re-inspections in Q1FY25, which received 6 Form 483 observations and official classification is awaited for the same. Conclusion for the same is anticipated by Q2FY25E.
- Focused on remediation and implementation of CAPA, at Indore.

#### India business

- Respiratory, Cardiac and urology grew faster than the market at 9%, 11% and 15%, respectively
- In branded Rx the company added 2 brands in over INR 1,000 Mn category. As such the company has nearly 24 such brands.
- It has 20 brands in the Top 300 brands category in IPM as per IQVIA MAT June 24.
- Looking to acquire bolt on targets in branded generic space, both small and large.
- MR base has gone up to 10,000 as of Q1FY25 vs. 8,500 earlier.

#### North America (US)

- Lanreotide continues to witness strong demand signals in the market.
- Believes the Lanreotide's generic to ramp up gradually as well over a period of time as the competition is limited.
- Keen for bolt on acquisition opportunities in sterile injectable, either around 505(b)(2) or around in-licensing opportunities.

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- Albuterol is a 68-70 Mn inhalers market currently vs. 58 Mn inhalers 3-4 years back.

### South Africa

- Witnessed strong growth at 19.0% Y-o-Y in local currency terms driven by private markets.
- In private market, the secondary sales growth was at 7.8% vs. market growth of 1.7%
- South Africa OTC exhibited 19.0% Y-o-Y growth in Q1FY25.
- Big brands are key to success in the region with the company having 8 brands with generic segment and revenue of over ZAR 100 Mn.
- Additionally, the company has highest number of brands in top 10, top 50, top 100 in generics as per IQVIA MAT May 24.
- China is one of the key markets in Emerging Markets' segment in Q1FY25.

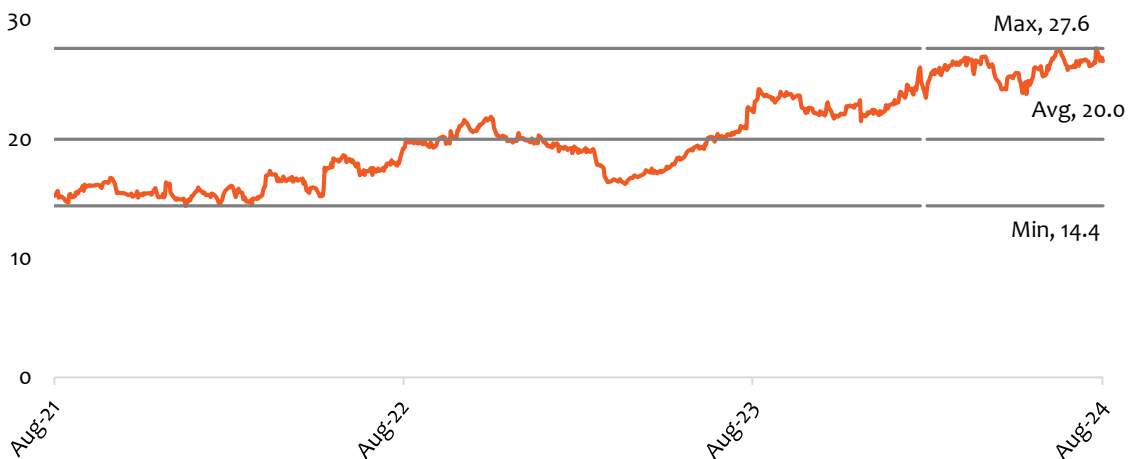
### R&D:

- R&D expenses stood at 5.3% of revenue due to higher product filing costs and development efforts.

### Valuation and view:

CIPLA exhibited underperformance to the tune of -3.2%/-1.6%/-3.2%/-2.3% across revenue, gross profits, EBITDA and PAT fronts for Q1FY25. While for GPMs it outperformed our estimates (67.2% vs. our estimate of 66.2%) it came in line on EBITDA and PAT margins front, for Q1FY25. The company has launched generic of its blockbuster peptide based product Lanreotide in Q1FY25 and 2 more peptides are expected to be launched in H1FY25, subject to approvals, as well envisions launch of gAdvair in H1FY26E subject to it filing the product at InvaGen by Q4FY25E and getting the subsequent approval. Additionally, gAbraxane's launch depends on regulator's conclusion around Goa facility by Q2FY25E. Although, the company is expected to resume growth in India market, post change in the distribution model in Q1FY25, and South Africa is growing well, the uncertainty surrounding the key launches in the US, as also there exists uncertainty around their filing timeline, pose a key risks. Additionally, gross margins are expected to dilute down over the next 3 quarters owing to tender business. We cut down our earning estimates by 10% and 7% for FY25E and FY26E, respectively. **We anticipate the company to clock in 8.8% and 11.7% CAGR rise in revenue and net earnings over FY24-FY26E (vs. our earlier estimate of 7.2% and 15.9% CAGR, respectively, over the same period)** The stock is trading at 28.3x/25.2x its FY25E/FY26E EPS. We increase the PE multiple to 27.0x (earlier 25.0x) applying on FY26E EPS of INR 60.6 (earlier INR 65.3) to account for likelihood of strong product launches in H2FY25E and FY26E in the US market. As such, we maintain the TP of INR 1,633; however, downgrade CIPLA's rating to ACCUMULATE from BUY as the upside is at 6.8% from CMP.

Cipla 1-Year forward PE for Last 3 Years



Source: KRChoksey Research, Bloomberg

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### Q1FY25 Results

Particulars (INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
<b>Revenue from Operations</b>	<b>66,939</b>	<b>61,632</b>	<b>63,289</b>	<b>8.6%</b>	<b>5.8%</b>
<b>Total Expenditure</b>	<b>49,781</b>	<b>48,474</b>	<b>48,350</b>	<b>2.7%</b>	<b>3.0%</b>
Cost of Raw Materials	12,409	12,527	12,990	-0.9%	-4.5%
Purchase of Stock	11,000	7,390	9,797	48.9%	12.3%
Changes in Inventories	-1,480	585	-418	-353.1%	253.9%
Employee Cost	11,942	10,842	10,666	10.1%	12.0%
Other Expenses	15,910	17,130	15,316	-7.1%	3.9%
<b>EBITDA</b>	<b>17,158</b>	<b>13,159</b>	<b>14,939</b>	<b>30.4%</b>	<b>14.9%</b>
<b>EBITDA Margins (%)</b>	<b>25.6%</b>	<b>21.4%</b>	<b>23.6%</b>	<b>203 Bps</b>	<b>428 Bps</b>
Depreciation	2,467	2,883	2,392	-14.4%	3.1%
<b>EBIT</b>	<b>14,691</b>	<b>10,275</b>	<b>12,547</b>	<b>43.0%</b>	<b>17.1%</b>
Other Income	1,602	2,493	1,363	-35.8%	17.5%
Interest Expense	180	176	164	2.0%	9.5%
<b>PBT before Exceptional</b>	<b>16,114</b>	<b>12,593</b>	<b>13,746</b>	<b>28.0%</b>	<b>17.2%</b>
Exceptional Items	0	0	0	NA	NA
<b>PBT</b>	<b>16,114</b>	<b>12,593</b>	<b>13,746</b>	<b>28.0%</b>	<b>17.2%</b>
Tax	4,351	3,249	3,780	33.9%	15.1%
Share of Associates	-8	-25	15	-67.2%	-155.7%
Minority Interest	-22	-72	24	NA	NA
<b>PAT</b>	<b>11,776</b>	<b>9,390</b>	<b>9,957</b>	<b>25.4%</b>	<b>18.3%</b>
<b>PAT Margin (%)</b>	<b>17.6%</b>	<b>15.2%</b>	<b>15.7%</b>	<b>186 Bps</b>	<b>236 Bps</b>
<b>EPS</b>	<b>14.6</b>	<b>11.6</b>	<b>12.3</b>	<b>25.4%</b>	<b>18.2%</b>
<b>Adj. PAT</b>	<b>11,776</b>	<b>9,390</b>	<b>9,957</b>	<b>25.4%</b>	<b>18.3%</b>
<b>Adj. PAT Margin (%)</b>	<b>17.6%</b>	<b>15.2%</b>	<b>15.7%</b>	<b>186 Bps</b>	<b>236 Bps</b>
<b>Adj. EPS</b>	<b>14.6</b>	<b>11.6</b>	<b>12.3</b>	<b>25.4%</b>	<b>18.2%</b>

Source: Company, KRChoksey Research

Segments Result (INR Mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Total	63,280	66,780	65,430	61,630	66,920
India	27,720	28,170	28,590	24,170	28,980
North America	18,220	18,870	19,160	18,750	20,870
SAGA	7,480	9,930	8,150	7,610	6,950
International Markets*	7,790	7,340	7,460	8,270	8,490
API	1,360	1,470	1,080	1,890	980
Others	710	1,000	990	940	650

Segments Result (% YoY)	Q1FY24	Q2FY24	Q2FY24	Q4FY24	Q1FY25
Total	17.7%	14.6%	12.6%	10.1%	5.8%
India	11.6%	9.9%	11.5%	7.0%	4.5%
North America	52.0%	31.8%	19.8%	11.8%	14.5%
SAGA	-5.1%	14.5%	19.9%	9.7%	-7.1%
International Markets*	8.2%	-3.8%	-2.1%	5.5%	9.0%
API	0.7%	-3.9%	-26.5%	42.1%	-27.9%
Others	39.2%	96.1%	70.7%	77.4%	-8.5%

Revenue Mix (%)	Q1FY24	Q2FY24	Q2FY24	Q4FY24	Q1FY25
Total	100%	100%	100%	100%	100%
India	44%	42%	44%	39%	43%
North America	29%	28%	29%	30%	31%
SAGA	12%	15%	12%	12%	10%
International Markets*	12%	11%	11%	13%	13%
API	2%	2%	2%	3%	1%
Others	1%	1%	2%	2%	1%

Source: Company, KRChoksey Research

\* International market includes Emerging markets and Europe

## Cipla Ltd.

### KEY FINANCIALS

#### Exhibit 1: Profit & Loss Statement

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
<b>Revenues</b>	<b>2,17,633</b>	<b>2,27,531</b>	<b>2,57,741</b>	<b>2,77,595</b>	<b>3,04,862</b>
COGS	84,956	82,523	88,196	93,552	1,00,605
<b>Gross profit</b>	<b>1,32,677</b>	<b>1,45,008</b>	<b>1,69,545</b>	<b>1,84,044</b>	<b>2,04,258</b>
Employee cost	35,299	38,301	43,100	49,253	53,656
Other expenses	51,851	56,438	63,534	67,521	74,691
<b>EBITDA</b>	<b>45,528</b>	<b>50,270</b>	<b>62,911</b>	<b>67,269</b>	<b>75,911</b>
<b>EBITDA Margin</b>	<b>20.9%</b>	<b>22.1%</b>	<b>24.4%</b>	<b>24.2%</b>	<b>24.9%</b>
Depreciation & amortization	10,520	11,721	10,510	11,547	12,681
<b>EBIT</b>	<b>35,008</b>	<b>38,549</b>	<b>52,400</b>	<b>55,722</b>	<b>63,230</b>
Interest expense	1,064	1,095	899	744	817
Other income	2,809	4,755	7,466	4,762	4,573
<b>PBT before excep. items</b>	<b>36,754</b>	<b>42,208</b>	<b>58,967</b>	<b>59,740</b>	<b>66,985</b>
Exceptional Items	1,821	-1,824	-1,948	0	0
<b>PBT</b>	<b>34,933</b>	<b>40,384</b>	<b>57,019</b>	<b>59,740</b>	<b>66,985</b>
Tax	9,338	12,029	15,466	16,130	18,086
Share of Profit/(Loss) of Associates/Minority	-427	-336	-338	56	57
<b>PAT</b>	<b>25,168</b>	<b>28,019</b>	<b>41,216</b>	<b>43,666</b>	<b>48,956</b>
<b>EPS (INR)</b>	<b>33.5</b>	<b>32.4</b>	<b>48.6</b>	<b>54.0</b>	<b>60.6</b>

Source: Company, KRChoksey Research

#### Exhibit 2: Cash Flow Statement

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
Net Cash Generated From Operations	33,259	32,377	41,339	46,990	51,913
Net Cash Flow from/(used in) Investing Activities	(18,719)	(23,885)	(29,880)	(33,918)	(34,037)
Net Cash Flow from Financing Activities	(15,998)	(9,583)	(12,004)	(9,478)	(10,609)
Net Inc/Dec in cash equivalents	(1,458)	(1,092)	(546)	3,594	7,268
Opening Balance	7,904	6,581	5,613	5,123	8,718
Adjustment	331	124	56	0	0
Closing Balance Cash and Cash Equivalents	6,777	5,613	5,123	8,718	15,985

Source: Company, KRChoksey Research

#### Exhibit 3: Key Ratios

Key Ratio	FY22	FY23	FY24	FY25E	FY 26E
EBITDA Margin (%)	20.9%	22.1%	24.4%	24.2%	24.9%
Tax rate (%)	26.7%	29.8%	27.1%	27.0%	27.0%
Net Profit Margin (%)	11.6%	12.3%	16.0%	15.7%	16.1%
RoE (%)	12.8%	11.0%	14.7%	14.4%	14.3%
RoCE (%)	16.0%	15.9%	19.3%	18.2%	18.3%
Current Ratio (x)	3.0	3.4	3.7	4.2	4.7
EPS (INR)	31.2	34.7	51.1	54.0	60.6

Source: Company, KRChoksey Research

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### Exhibit 4: Balance Sheet

INR Millions	FY 22	FY 23	FY 24	FY 25E	FY 26E
<b>Non-current assets</b>					
Property, plant and equipment	51,644	45,836	46,419	56,812	62,300
Capital work-in-progress	3,829	6,892	8,643	8,643	8,643
Goodwill (Net)	31,379	29,839	31,120	31,120	31,120
Other intangible assets	13,196	11,260	13,126	13,238	13,361
Intangible assets under development	<b>3,833</b>	<b>4,041</b>	<b>2,884</b>	<b>2,884</b>	<b>2,884</b>
Investments accounted for using equity method	458	909	1,301	1,270	1,240
<b>Financial assets</b>					
Investments	<b>3,712</b>	<b>4,816</b>	<b>5,122</b>	<b>4,735</b>	<b>5,200</b>
Loans	0	0	170	1	1
Other financial assets	4,170	993	5,086	1,100	1,208
Deferred tax assets (Net)	4,488	4,565	5,878	5,725	6,287
Tax assets (Net)	4,836	5,480	4,637	6,169	6,775
Other non-current assets	2,189	7,252	8,379	2,792	3,067
<b>Total non-current assets</b>	<b>1,23,736</b>	<b>1,21,884</b>	<b>1,32,764</b>	<b>1,34,489</b>	<b>1,42,085</b>
<b>Current assets</b>					
Inventories	<b>53,502</b>	<b>51,564</b>	<b>52,380</b>	<b>61,514</b>	<b>66,151</b>
<b>Financial assets</b>					
Investments	21,950	30,899	48,070	60,088	75,110
Trade receivables	34,244	40,570	47,707	49,435	54,291
Cash and cash equivalents	6,777	6,276	6,401	8,718	15,985
Bank balances other than above	12,507	9,370	2,349	2,584	2,842
Loans	36	76	2	2	2
Other financial assets	8,984	20,806	28,015	28,015	28,015
Other current assets + Current Tax Assets	9,107	8,490	9,001	18,320	20,119
Assets classified as held for sale	167	4,699	490	490	490
<b>Total current assets</b>	<b>1,47,275</b>	<b>1,72,750</b>	<b>1,94,414</b>	<b>2,29,165</b>	<b>2,63,005</b>
<b>TOTAL ASSETS</b>	<b>2,71,011</b>	<b>2,94,633</b>	<b>3,27,178</b>	<b>3,63,654</b>	<b>4,05,091</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	1,614	1,614	1,615	1,615	1,615
Other equity	2,06,803	2,32,464	2,65,450	3,00,383	3,39,548
Equity attributable to the equity shareholders	2,08,417	2,34,077	2,67,064	3,01,997	3,41,162
Non-controlling interests	2,757	3,058	959	872	785
<b>Total equity</b>	<b>2,11,174</b>	<b>2,37,135</b>	<b>2,68,023</b>	<b>3,02,869</b>	<b>3,41,947</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
<b>Financial liabilities</b>					
Borrowings	4,162	0	0	0	0
Other financial liabilities	2,587	3,225	2,932	2,932	2,932
Provisions	1,002	1,022	1,293	1,293	1,293
Deferred tax liabilities (Net)	2,440	1,633	1,853	1,853	1,853
Other non-current liabilities + Trade payables	515	521	619	619	619
<b>Total non-current liabilities</b>	<b>10,705</b>	<b>6,401</b>	<b>6,697</b>	<b>6,697</b>	<b>6,697</b>
<b>Current liabilities</b>					
<b>Financial liabilities</b>					
Borrowings	4,079	5,943	3,340	3,340	3,340
Trade payables	25,081	24,571	24,740	26,400	28,390
Other financial liabilities	4,442	3,945	4,921	4,891	5,260
Other current liabilities	3,111	2,841	3,119	3,119	3,119
Provisions	12,210	12,867	16,118	16,118	16,118
Current tax liabilities (Net)	210	931	220	220	220
<b>Total current liabilities</b>	<b>49,132</b>	<b>51,098</b>	<b>52,458</b>	<b>54,087</b>	<b>56,446</b>
<b>Total liabilities</b>	<b>59,837</b>	<b>57,498</b>	<b>59,155</b>	<b>60,785</b>	<b>63,144</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,71,011</b>	<b>2,94,633</b>	<b>3,27,178</b>	<b>3,63,654</b>	<b>4,05,090</b>

Source: Company, KRChoksey Research

## Cipla Ltd.

### Cipla Ltd.

Date	CMP (INR)	TP (INR)	Recommendation
02-Aug-24	1,529	1,633	ACCUMULATE
13-May-24	1,415	1,633	BUY
29-Jan-24	1,370	1,592	BUY
02-Nov-23	1,209	1,405	BUY
28-Jul-23	1,162	1,389	BUY
17-May-23	922	1,167	BUY
07-Nov-22	1,129	1,289	ACCUMULATE

### Rating Legend (Expected over a 12-month period)

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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