

Dr Reddy's Labs

Estimate change



TP change



Rating change



CMP: INR1,157

TP: INR1,220 (5%)

Neutral

Ex g-Revlimid resilience; India/EU/Russia drive earnings beat Work-in-progress to strengthen growth outlook

Bloomberg	DRRD IN
Equity Shares (m)	835
M.Cap.(INRb)/(USDb)	965.8 / 10.5
52-Week Range (INR)	1380 / 1020
1, 6, 12 Rel. Per (%)	-6/-8/-19
12M Avg Val (INR M)	2409

Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	345.9	393.9	411.3
EBITDA	81.3	88.6	92.1
Adj. PAT	55.1	55.1	57.1
EBITDA Margin (%)	23.5	22.5	22.4
Adj. EPS (INR)	66.2	66.1	68.5
EPS Gr. (%)	-1.7	-0.1	3.7
BV/Sh. (INR)	463	524	588

Ratios

Net D:E	-0.3	-0.6	-0.7
RoE (%)	15.2	13.4	12.3
RoCE (%)	11.6	10.6	10.1
Payout (%)	7.9	7.6	7.3

Valuations

P/E (x)	17.5	17.5	16.9
EV/EBITDA (x)	11.1	9.4	8.5
Div. Yield (%)	0.4	0.4	0.4
FCF Yield (%)	4.2	7.1	5.7
EV/Sales (x)	2.6	2.1	1.9

Shareholding Pattern (%)

As On	Dec-25	Sep-25	Dec-24
Promoter	26.6	26.6	26.6
DII	30.4	28.0	22.9
FII	33.5	35.8	40.2
Others	9.5	9.6	10.2

FII includes depository receipts

- Dr Reddy's Labs (DRRD) posted better-than-expected financial performance in 3QFY26. Superior execution in India, Europe and Russia and favorable currency movement more than offset the impact of lower g-Revlimid business for the quarter, driving a beat on earnings.
- DRRD's India business outperformed the industry, aided by its focus on portfolio innovation and the addition of its acquired portfolio (Stugeron).
- In Russia, the highest-ever quarterly sales were driven by product launches and better traction in existing products, supported by forex benefits.
- In Europe, Germany/France and NRT portfolio led growth, partly offset by YoY decline in UK sales.
- DRRD is geared up for the launch of semaglutide in Canada, India and many others through its own as well as partnered launches.
- We reduce our estimates for FY26 by 4% to factor in a delay in semaglutide launch in Canada and raise our estimate for FY27 by 6% to factor in better growth prospects in India/EU/Russia. We value DRRD at 18x 12M forward earnings to arrive at a TP of INR1,220.
- While DRRD is implementing efforts to improve growth across key markets, the overall earnings would be stable over FY26-28 due to anticipated competition in g-Revlimid and some gestation period for certain niche opportunities (Semaglutide/Abatacept) to provide commercial benefits. Maintain Neutral.

Geographic mix shifts drive YoY growth, margin compression persists

- 3Q revenue grew 6.0% YoY to INR87.3b (vs. est. of INR80.9b).
- NA sales fell 12% YoY to INR29.6b (~USD329; 34% of sales) due to lower lenalidomide sales and higher price erosion in certain key products. Europe sales rose 20% YoY to INR14.5b (17% of sales), driven by growth in NRT portfolio and favorable forex movement, partly offset by pricing pressure in generics.
- India sales grew 19% YoY to INR16.0b (18% of Sales). Emerging market sales rose 32% YoY to INR19.0b (22% of sales), majorly driven by Russia (up 51% YoY to INR10.6b).
- Pharmaceutical Services and Active Ingredients (PSAI) segment revenue declined 2% YoY to INR8.0b (9% of sales).
- Gross margin (GM) contracted 440bp YoY to 53.6% largely due to lower margins in PSAI (down 870bp YoY) and Global Generics (down 390bp YoY).
- EBITDA margin contracted 330bp YoY to 23.1% (est. 21.3%). EBITDA fell 7.4% YoY to INR20.1b (est. INR17.2b). 3Q included a one-time expense of INR1.2b related to the new labor code.
- PAT remained stable YoY at INR13.2b.
- For 9MFY26, revenue/PAT grew 9%/5% YoY to INR260b/INR43b, whereas EBITDA declined 3% YoY to INR63b.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Highlights from the management commentary

- On Ex-Revlimid basis, DRRD indicated gross margin to be in the range of 52-55% going forward.
- Organic growth in India was ~17%+ YoY. DRRD expects to sustain 15%+ growth on the back of innovative products and better traction in existing products.
- DRRD has filed for IV version of Abatacept with USFDA. The sub-cutaneous version is expected to be filed in Jul'26 with USFDA. DRRD expects to file both version for EU market in Jul'26.
- DRRD exhibited NRT portfolio YoY growth of 8% in CC terms. ~85% of the operational aspect is now controlled by DRRD. DRRD expects growth to improve going forward, supported by higher business from markets like Brazil.

Consolidated Quarterly Performance

Y/E March	FY25				FY26				FY25	FY26E	Estimates	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			3QE	% Var
Sales	76,727	80,162	82,320	85,060	85,452	88,051	87,268	85,132	3,24,269	3,45,903	80,851	7.9
YoY Change (%)	13.9	16.5	14.1	20.1	11.4	9.8	6.0	0.1	16.2	6.7	-1.8	
Total Expenditure	55,452	58,134	60,590	64,555	63,951	66,798	67,144	66,744	2,38,731	2,64,637	63,630	
EBITDA	21,275	22,028	21,730	20,505	21,501	21,253	20,124	18,389	85,538	81,267	17,221	16.9
YoY Change (%)	4.0	10.3	7.1	16.1	1.1	-3.5	-7.4	-10.3	9.1	-5.0	-20.7	
Margins (%)	27.7	27.5	26.4	24.1	25.2	24.1	23.1	21.6	26.4	23.5	21.3	8.3
Amortization	3,815	3,975	4,719	4,555	4,765	5,051	5,215	5,050	17,064	20,081	4,400	
EBIT	17,460	18,053	17,011	15,950	16,736	16,202	14,909	13,339	68,474	61,186	12,821	
YoY Change (%)	3.5	11.9	3.7	12.9	-4.1	-10.3	-12.4	-16.4	7.8	-10.6	-24.6	
Other Income	1,366	2,600	461	3,374	2,311	3,510	1,961	2,334	7,801	10,116	2,350	
PBT before EO expenses	18,826	20,653	17,472	19,324	19,047	19,712	16,870	15,673	76,275	71,302	15,171	11.2
One-off income/(expense)	-5	-1,486	1,270	730	0	-1,362	-1,441	0	509	-2,803	0	
Profit before Tax	18,821	19,167	18,742	20,054	19,047	18,350	15,429	15,673	76,784	68,499	15,171	1.7
Tax	4,901	5,752	4,704	4,181	4,951	4,082	3,533	3,636	19,538	16,202	3,793	
Rate (%)	26.0	30.0	25.1	20.8	26.0	22.2	22.9	23.2	25.4	23.7	25.0	
PAT	13,920	13,415	14,038	15,873	14,096	14,268	11,896	12,037	57,246	52,297	11,378	4.5
Minority Interest	0	862	-95	-66	-82	-104	-202	-250	701	-638	-95	
Reported Profit	13,920	12,553	14,133	15,939	14,178	14,372	12,098	12,287	56,545	52,935	11,473	5.4
Adjusted PAT	13,924	13,593	13,182	15,361	14,178	15,431	13,209	12,287	56,060	55,105	11,473	15.1
YoY Change (%)	2.0	2.4	-4.3	26.7	1.8	13.5	0.2	-20.0	6.1	-1.7	-13.0	
Margins (%)	18.1	17.0	16.0	18.1	16.6	17.5	15.1	14.4	17.3	15.9	14.2	

E - MOFSL Estimates

KPIs (Consolidated)

Y/E March	FY25				FY26				FY25	FY26E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
INRm										
North America	38,462	37,281	33,834	35,586	34,123	32,408	29,644	28,800	1,45,163	1,24,975
YoY Change (%)	20.3	17.6	1.0	9.1	-11.3	-13.1	-12.4	-19.1	11.8	-13.9
Europe	5,265	5,770	12,096	12,750	12,744	13,762	14,476	14,280	35,881	55,262
YoY Change (%)	3.8	9.2	143.4	144.8	142.1	138.5	19.7	12.0	74.9	54.0
India	13,252	13,971	13,464	13,047	14,711	15,780	16,032	15,135	53,734	61,658
YoY Change (%)	15.4	17.8	14.1	15.8	11.0	12.9	19.1	16.0	15.8	14.7
Russia & Others CIS	7,400	9,000	9,400	8,900	9,100	11,000	13,000	12,113	34,700	45,213
YoY Change (%)	-2.6	12.5	14.6	23.6	23.0	22.2	38.3	36.1	12.3	30.3
Others	3,741	5,600	4,958	5,081	4,942	5,548	5,961	5,469	19,380	21,920
YoY Change (%)	-5.3	32.1	7.0	3.9	32.1	-0.9	20.2	10.0	9.2	13.1
PSAI	7,657	8,407	8,219	9,563	8,181	9,450	8,018	9,180	33,846	34,829
YoY Change (%)	14.1	19.5	4.8	16.4	6.8	12.4	-2.4	-4.0	13.6	2.9
Cost Break-up										
COGS (% of Sales)	39.6	40.4	42.0	44.4	43.1	45.3	46.4	47.3	41.7	45.5
SG&A (% of Sales)	24.6	23.0	23.6	22.9	24.4	23.5	23.5	24.1	23.5	23.9
R&D Expenses(% of Sales)	8.1	9.1	8.1	8.5	7.3	7.0	7.0	7.0	8.4	7.1



Management call highlights

- DRRD awaits approval for semaglutide in Canada and is ready for launch after approval.
- It has received certain comments with respect to fill-finish line on b-Rituximab at Bacchupally site. After responding to USFDA query in the next two weeks, DRRD expects re-inspection for that particular fill-finish line.
- DRRD indicated that innovator (Novo Nordisk) is in the process of tie-ups for authorized generic versions of semaglutide for Canada market.
- With respect to b-Denosumab, DRRD's manufacturing partner, Alvotech, needs to respond to CRL issued by USFDA. The CRL is referring to observations raised by USFDA during the pre-approval inspection.
- On CC basis, Russia segment grew 21% YoY in 3QFY26.
- DRRD had 28 global generics filings and launched 10 products globally in 3QFY26.

Key exhibits

Exhibit 1: In CC terms, NA sales fell 17% YoY in 3QFY26

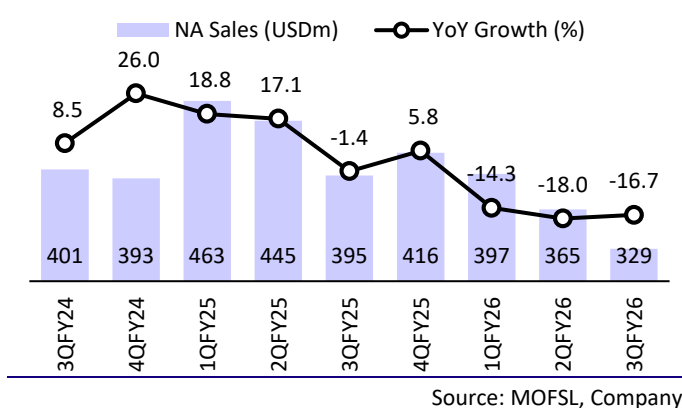


Exhibit 2: DF sales grew 19% YoY in 3QFY26

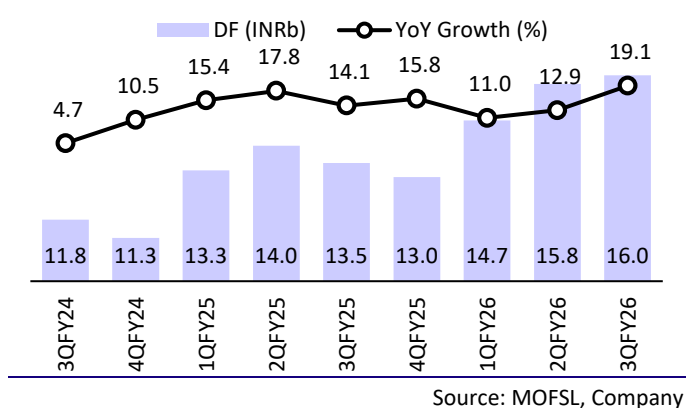


Exhibit 3: Gross profit declined 2.1% YoY

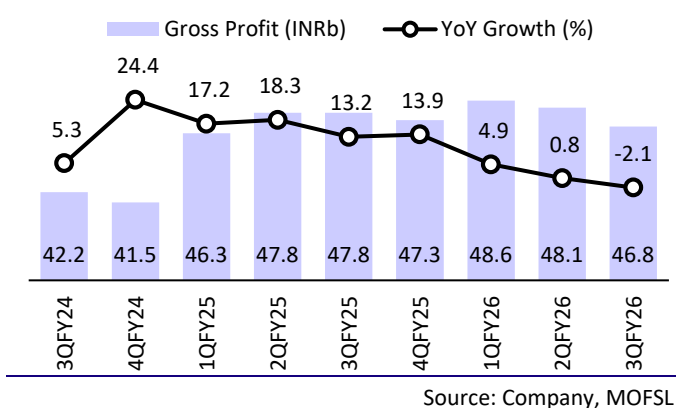


Exhibit 4: EBITDA declined 7.4% YoY

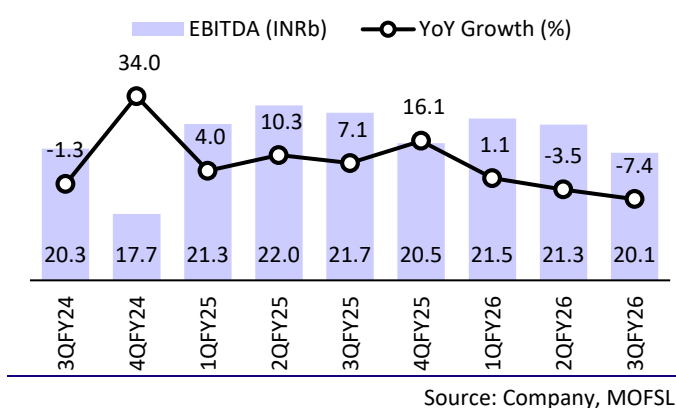
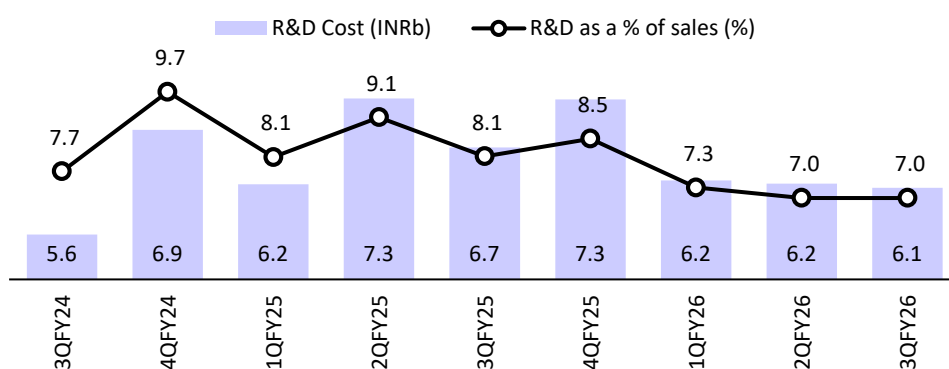


Exhibit 5: R&D expenses as a proportion of sales remained stable at 7%



Source: MOFSL, Company

India, Europe and EM strength offsets NA softness

NA: Near-term pricing and product headwinds; regulatory progress awaited

- 9MFY26 revenue was down 12% YoY (INR96b; USD1.1b), largely due to lower Lenalidomide sales and increased price erosion in select key products.
- Pipeline execution remained active, with six new product launches during 3Q and 18 in 9MFY26; four ANDAs were filed with the USFDA in 3Q, taking total ANDA filings to 10 in 9MFY26.
- As of Dec'25 end, 73 filings were pending with the USFDA, including 71 ANDAs and two NDAs filed under the 505(b)(2) pathway, including one Paragraph IV filing.
- In Canada, DRRD is awaiting regulatory approval for semaglutide and is prepared for launch after approval; management also noted that the innovator, Novo Nordisk, is pursuing tie-ups for an authorized generic version. The company had earlier received a notice of non-compliance from the Canadian regulator, for which responses and clarifications were submitted by mid-Nov'25.
- For b-Rituximab, a CRL was received from the USFDA related to observations from the pre-approval inspection at the Bachupally biologics facility and certain BLA aspects; management expects to respond shortly to USFDA queries on the specific fill-finish line, following which a re-inspection is anticipated.
- With respect to b-Denosumab, a CRL was issued to the manufacturing partner, Alvotech, linked to observations from the USFDA's pre-license inspection of its Reykjavik facility; the partner is in the process of responding to the regulator.
- We expect NA sales to clock a 12% negative CAGR over FY25-28E to USD1.2b.

DF: India business delivers steady, innovation-led growth

- DRRD registered growth of 19%/14% YoY in 3QFY26/9MFY26, driven by strong performance of the innovation portfolio, new brand launches, price increases, volume expansion, and incremental contributions from the recently acquired Stugeron portfolio.
- Management (DRRD) highlighted that India business growth remains largely organic (70-80%), led by innovative brands, pricing actions, and volume growth, with limited reliance on acquisitions.
- The company continued to outperform the IPM, with secondary sales growth of 12.3% vs. IPM growth of 11.8% on an MQT basis, and 9.7% vs. IPM growth of 8.9% on a MAT basis.
- Product expansion remained healthy, with two new brands launched during 3Q, taking total brand launches to 18 in 9MFY26.
- We expect a sales CAGR of 14% to reach INR79b over FY25-28E.

Emerging markets: Russia-led emerging market growth drives strong 3Q

- 9MFY26 revenue increased 21% YoY to INR49.5b, supported by new product launches across markets, favorable forex, and volume-led sequential growth.
- Russia remained a key revenue contributor, with 3Q revenue of INR10.6b (~12% of total revenue), growing 51% YoY, and 9MFY26 revenue of INR26.4b (~10% of total revenue), up 36% YoY.
- CIS (ex-Russia) and Romania revenues were largely stable, with 3Q growth of 1% YoY and 9MFY26 growth of 4% YoY, aided by pricing actions and favorable forex, partly offset by lower volume uptake.
- Rest of World revenues supported overall performance, with 3QFY26/9MFY26 revenues growing 21%/10% YoY, driven by new product launches and higher volumes, partly offset by price erosion.
- Product pipeline remained robust, with 30 new products launched during 3Q, taking total launches to 80 in 9MFY26, underpinning stable growth across emerging markets.
- Overall, we expect a sales CAGR of 17% to reach INR87b over FY25-28E.

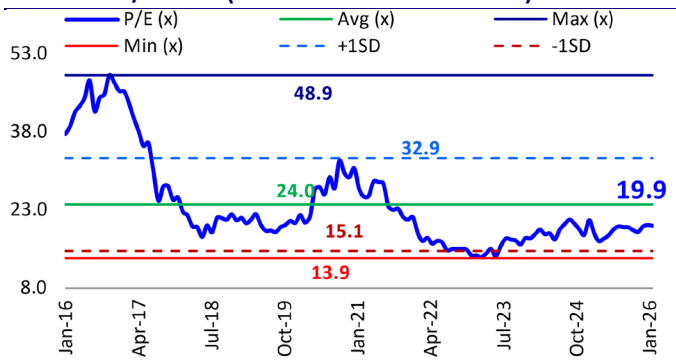
PSAI segment: Near-term volume softness

- Despite near-term pressure, the PSAI business delivered steady growth in 9MFY26, supported by underlying customer demand and portfolio breadth.
- During the quarter, the company filed 3 drug master files (DMFs) globally, taking the cumulative DMF filings to 80 in 9MFY26.
- We expect the PSAI business to post a 14% sales CAGR to reach INR50b over FY25-28E.

Maintain Neutral

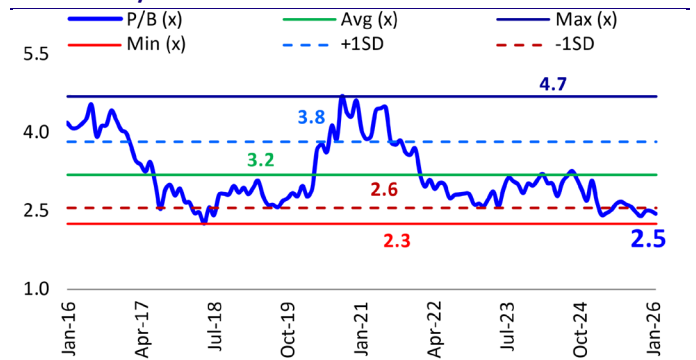
- We reduce our estimates for FY26 by 4% to factor in the delay in semaglutide launch in Canada and raise our estimate for FY27 by 6% to factor in better growth prospects in India/EU/Russia. We value DRRD at 18x 12M forward earnings to arrive at a TP of INR1,220.
- While DRRD is implementing efforts to improve growth across key markets, the overall earnings would be stable over FY26-FY28 due to anticipated competition in g-Revlimid and some gestation period for certain niche opportunities (Semaglutide/Abatacept) to provide commercial benefit. Maintain Neutral.

Exhibit 6: P/E chart (Please add editable charts)



Source: MOFSL, Company, Bloomberg

Exhibit 7: P/B chart



Source: MOFSL, Company, Bloomberg

Story in charts

Exhibit 8: Expect sales CAGR of 8.2% over FY25-28

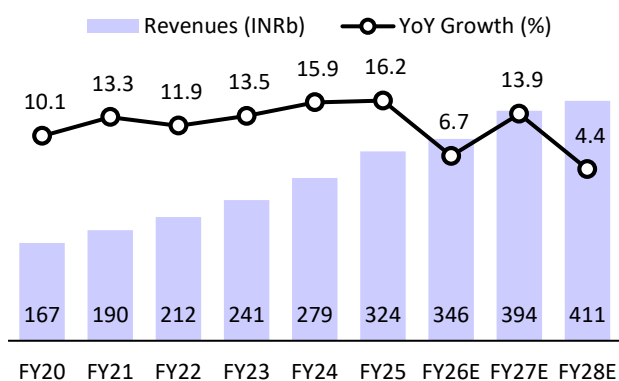


Exhibit 9: NA sales to remain in check over FY26-28

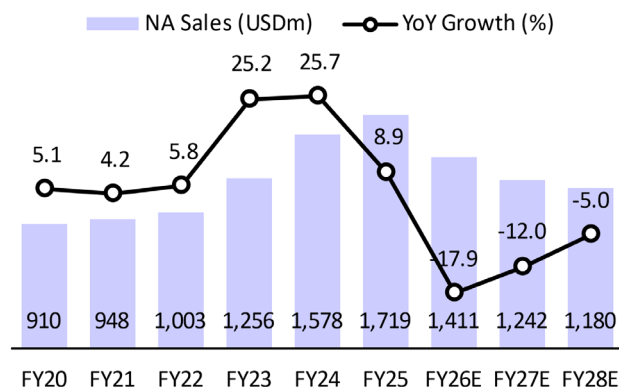


Exhibit 10: DF sales to clock 13.9% CAGR over FY25-28

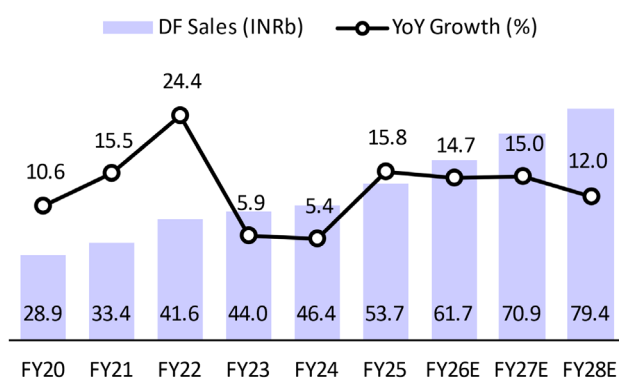


Exhibit 11: PSAI to post 13.5% sales CAGR over FY25-28

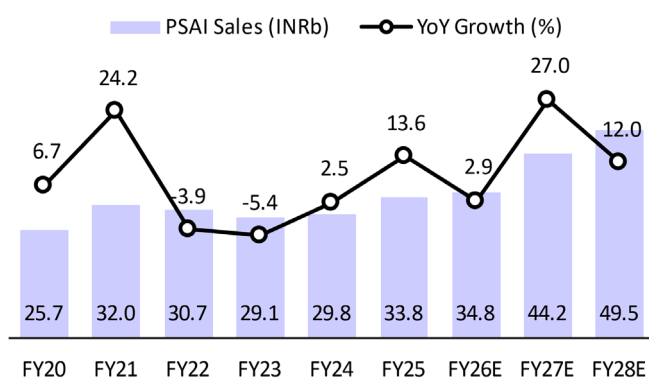


Exhibit 12: Gross margin to contract 610bp over FY25-28

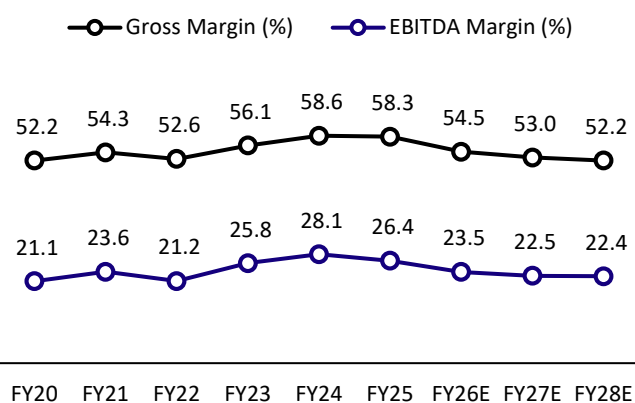


Exhibit 13: EBITDA to rise steadily over FY25-28

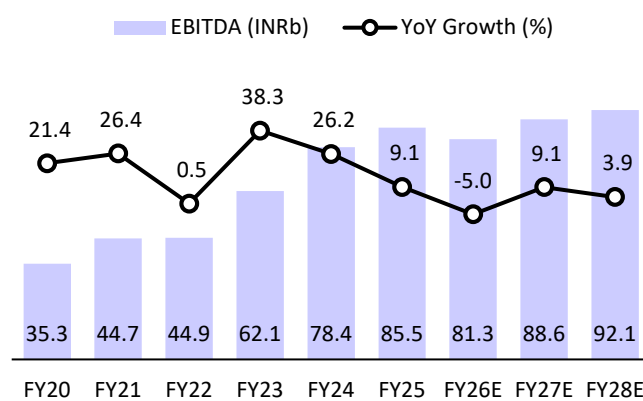


Exhibit 14: R&D expenses to be in range of 7-8% of sales over FY26-28

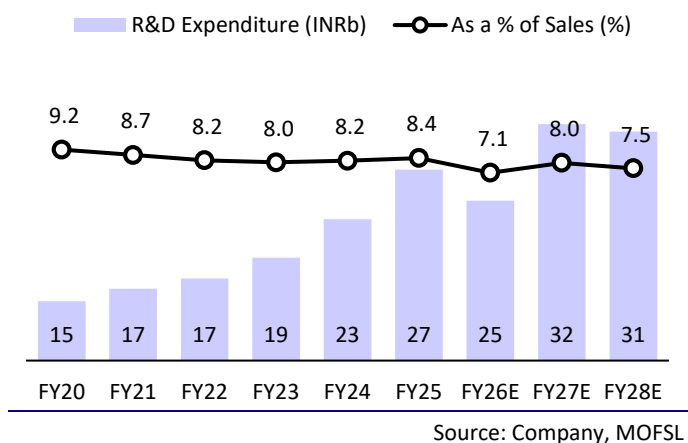
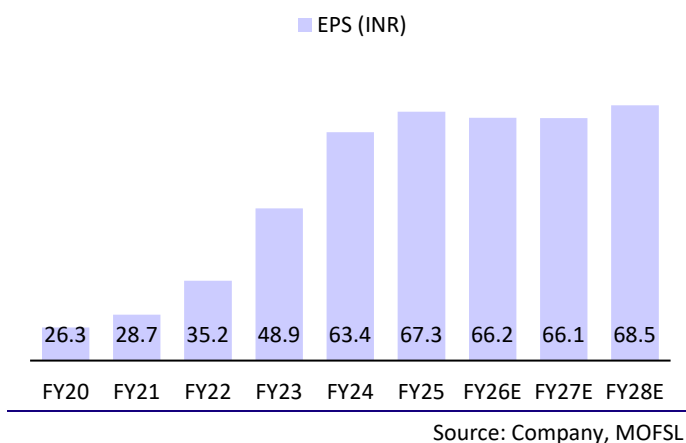


Exhibit 15: EPS to slightly increase over FY25-28



Financials and valuations

Income Statement							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	2,12,227	2,40,936	2,79,164	3,24,269	3,45,903	3,93,947	4,11,263
Change (%)	11.9	13.5	15.9	16.2	6.7	13.9	4.4
Total Expenditure	1,67,306	1,78,813	2,00,784	2,38,731	2,64,637	3,05,309	3,19,140
EBITDA	44,921	62,123	78,380	85,538	81,267	88,638	92,123
Change (%)	0.5	38.3	26.2	9.1	-5.0	9.1	3.9
Margin (%)	21.2	25.8	28.1	26.4	23.5	22.5	22.4
Depreciation & Amort.	11,825	12,663	14,847	17,064	20,081	20,485	21,386
Net Interest Exp	-2,119	-2,853	-3,494	-4,724	-5,012	-4,648	-4,260
One-off (Gains)/Loss	6,381	-5,445	-1,981	-509	2,803	0	0
PBT before EO Expense	38,679	53,943	69,889	76,275	71,302	73,901	76,099
Change (%)	10.5	39.5	29.6	9.1	-6.5	3.6	3.0
PBT after EO Expense	32,298	59,388	71,870	76,784	68,499	73,901	76,099
Tax	8,730	15,300	16,186	19,538	16,202	18,845	19,025
Tax Rate (%)	27.0	25.8	22.5	25.4	23.7	25.5	25.0
Reported PAT	23,568	44,088	55,684	56,545	52,935	55,057	57,074
Adjusted Net Profit	29,265	40,775	52,827	56,060	55,105	55,057	57,074
Change (%)	22.8	39.3	29.6	6.1	-1.7	-0.1	3.7
Margin (%)	13.8	16.9	18.9	17.3	15.9	14.0	13.9

E: MOFSL Estimates

Balance Sheet							(INR m)
Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	832	833	833	833	833	833	833
Reserves	1,89,695	2,30,158	2,79,717	3,36,333	3,85,089	4,35,968	4,88,863
Net Worth	1,90,527	2,30,991	2,80,550	3,37,166	3,85,922	4,36,801	4,89,696
Loans	33,845	13,472	20,020	46,766	45,766	44,766	43,766
Deferred Liabilities/Tax	-12,721	-6,363	-9,865	-4,400	-4,400	-4,400	-4,400
Capital Employed	2,11,651	2,38,100	2,90,705	3,79,532	4,27,288	4,77,167	5,29,062
Gross Block	1,60,797	1,77,753	2,03,024	2,40,963	2,55,551	2,64,413	2,73,276
Less: Accum. Deprn.	98,628	1,11,291	1,26,138	1,43,202	1,63,283	1,83,768	2,05,154
Net Fixed Assets	62,169	66,462	76,886	97,761	92,268	80,645	68,122
Investments	38,393	62,180	81,250	59,428	59,428	59,428	59,428
Goodwill	31,664	35,094	41,204	108,613	108,613	108,613	108,613
Curr. Assets	1,51,647	1,50,922	1,77,404	2,08,679	2,63,678	3,34,602	4,05,055
Inventory	50,884	48,670	63,552	71,085	75,583	79,617	84,531
Account Receivables	66,818	72,485	80,298	90,420	105,943	104,505	117,324
Cash and Bank Balance	14,852	5,779	7,107	14,654	50,464	114,468	165,629
Others	19,093	23,988	26,447	32,520	31,688	36,012	37,571
Curr. Liability & Prov.	72,222	76,558	86,039	94,949	96,698	1,06,121	1,12,155
Account Payables	25,572	26,444	30,919	35,523	36,375	36,661	38,924
Other Current Liabilities	46,650	50,114	55,120	59,426	60,324	69,460	73,231
Net Current Assets	79,425	74,364	91,365	1,13,730	1,66,980	2,28,481	2,92,900
Appl. of Funds	2,11,651	2,38,100	2,90,705	3,79,532	4,27,288	4,77,167	5,29,062

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)							
EPS	35.2	48.9	63.4	67.3	66.2	66.1	68.5
Cash EPS	49.4	64.2	81.2	87.8	90.3	90.7	94.2
BV/Share	229.0	277.3	336.8	404.8	463.3	524.4	587.9
DPS	4.1	4.1	4.3	4.3	4.3	4.3	4.3
Payout (%)	16.9	9.0	7.5	7.4	7.9	7.6	7.3
Valuation (x)							
P/E	32.8	23.6	18.2	17.2	17.5	17.5	16.9
Cash P/E	23.4	18.0	14.2	13.2	12.8	12.7	12.3
P/BV	5.0	4.2	3.4	2.9	2.5	2.2	2.0
EV/Sales	4.9	4.2	3.5	3.2	2.9	2.4	2.1
EV/EBITDA	23.1	16.2	12.6	12.1	12.3	10.5	9.5
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Return Ratios (%)							
ROIC	18.0	23.1	27.6	21.0	16.3	16.8	17.9
RoE	16.0	19.3	20.7	18.2	15.2	13.4	12.3
RoCE	12.3	15.9	18.4	14.9	11.6	10.6	10.1
Working Capital Ratios							
Fixed Asset Turnover (x)	1.4	1.4	1.5	1.5	1.4	1.5	1.5
Debtor (Days)	100	106	100	96	104	97	98
Inventory (Days)	83	75	73	76	77	72	73
Payable (Days)	38	39	38	37	38	34	34
Leverage Ratio							
Current Ratio (x)	2.1	2.0	2.1	2.2	2.7	3.1	3.6
Net Debt/Equity (x)	-0.2	-0.3	-0.3	-0.1	-0.3	-0.6	-0.7

Cash Flow Statement

Y/E March	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Op. Profit before Tax							
Depreciation	11,652	12,502	14,700	17,037	20,081	20,485	21,386
Interest/Div. Recd.	-7	248	-567	152	-2,301	-1,101	-1,101
Direct Taxes Paid	-7,437	-10,714	-20,047	-19,993	-16,202	-18,845	-19,025
(Inc)/Dec in WC	-18,407	-7,855	-20,182	-29,989	-17,440	2,502	-13,258
Other Items	11,693	4,209	-481	2,426			
CF from Operations	28,108	58,875	45,433	46,428	55,439	76,943	64,101
EO Expense	0	0	0	0	0	0	0
CF from Operations	28,108	58,875	45,433	46,428	55,439	76,943	64,101
(inc)/dec in FA	-15,733	-18,784	-26,350	-33,154	-14,588	-8,863	-8,863
Free Cash Flow	12,375	40,091	19,083	13,274	40,852	68,081	55,238
(Pur)/Sale of Inv	-11,201	-23,366	-15,716	25,118	0	0	0
Others	1,280	1,063	1,724	-42,985			
CF from Inv.	-25,654	-41,087	-40,342	-51,021	-14,588	-8,863	-8,863
Change in net worth	334	368	805	193	0	0	0
(Inc)/Dec in Debt	2,735	-20,397	4,346	23,196	-1,000	-1,000	-1,000
Dividend Paid	-4,146	-4,979	-6,648	-6,662	-4,178	-4,076	-4,076
CF from Fin. Activity	-2,422	-26,861	-3,763	11,855	-5,103	-4,138	-4,138
Inc/Dec of Cash	32	-9,073	1,328	7,262	35,749	63,943	51,100
Add: Beg. Balance	14,829	14,852	5,779	7,107	14,654	50,464	1,14,468
Closing Balance	14,861	5,779	7,107	14,369	50,403	1,14,407	1,65,568
BB/OD	-9	0	0	61	61	61	61
Closing Balance	14,852	5,779	7,107	14,654	50,464	1,14,468	1,65,629

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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