

## Equity Research

August 16, 2017

BSE Sensex: 31449

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## Power

Target price Rs19

### Earnings revision

(%)	FY18E	FY19E
Sales	↓ 16.8	↓ 11.7
EBITDA	↓ 1.9	↑ 1.0
EPS	NM	NM

### Target price revision

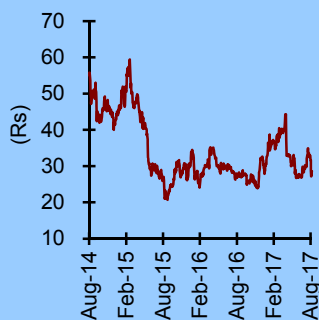
Rs19 from Rs17

### Shareholding pattern

	Dec '16	Mar '17	Jun '17
Promoters	64.9	68.1	68.1
Institutional investors	20.0	24.8	23.9
MFs and UTI	0.7	0.8	0.2
FIs/Banks	2.0	1.9	1.8
FII	17.3	22.1	15.5
Others	15.1	7.1	8.0

Source: NSE

### Price chart



### Research Analysts:

**Prakash Gaurav Goel**

prakash.goel@icicisecurities.com  
+91 22 6637 7373

**Apoorva Bahadur**

apoorva.bahadur@icicisecurities.com  
+91 22 6637 7419

INDIA

**ICICI Securities**

## Adani Power

**SELL**

**Maintained**

**Rs29**

Weak utilisation offsetting exchange rate, merchant gains

Reason for report: Q1FY18 result review and earnings revision

Adani Power reported EBITDA of Rs15.6bn in Q1FY18 – 18.5% down YoY but better than our estimate of Rs9.5bn. The EBITDA outperformance was driven by: 1) lower than anticipated fuel cost/unit (Rs2.49/kWhr in Q1FY18 vs our estimate of Rs2.8/kWhr), and 2) higher than expected realisations (Rs4.09/kWhr in Q1FY18 vs our estimate of Rs3.89/kWhr) on account of recognition of prior-period revenue of Rs2.9bn. Adjusting for this, the company's EBITDA declined to Rs12.7bn and net loss expanded from Rs4.5bn (reported) to Rs7.4bn. During the quarter, Adani Power recorded Compensatory Tariff (CT) / Force Majeure (FM) relief of Rs1.8bn at its Tiroda and Kawai plants for losses incurred due to shortage of domestic coal (under the 'change in domestic law' clause).

- **Pick-up in merchant realisations and INR strengthening to provide some relief but poor utilisations a concern:** Merchant realisations improved from Rs3.95/kWhr in Q1FY17 to Rs4.19/kWhr in Q1FY18. While merchant volumes have declined YoY, uptick in realisations is positive. Additionally, the recent INR strengthening will help reduce imported coal cost as the company's Udupi and Mundra power plants are dependent on imported coal to meet most of their fuel requirements. However, weak plant utilisations (on demand backdowns) are a cause of concern, acknowledging which, we cut our FY18/FY19 generation estimates.
- **Linkage for Tiroda and Kawai under SHAKTI could bring down their fuel costs by Rs0.1-0.15/kWhr:** Adani Power's management highlighted its intention to participate in the upcoming FSA linkage auctions under the government's 'SHAKTI' scheme for its Tiroda and Kawai power plants. While Kawai currently does not have any coal linkage, Tiroda has a linkage of 5mntpa against its requirement of ~13mntpa. Management expects securing linkages to bring down fuel cost at those plants by Rs0.1-0.15/kWhr – improving their profitability and Merit Order Despatch standing.
- **Mundra demerger on track:** Plan of spinning-off Mundra into a separate subsidiary is on track with completion expected by Dec'17. The National Company Law Tribunal (NCLT) has already fixed dates for shareholder and creditor meetings. Recall that the company intends to curtail losses by demerging Mundra.
- **Maintain SELL** with a revised SoTP-based TP of Rs19/share given the following concerns: i) Mundra PPAs have become unviable post Supreme Court's adverse ruling, ii) the company's balance sheet is stretched post CT write-off, and iii) APL's aggressive inorganic expansion plans. Risks of INR depreciation, lower merchant utilisation, and increasing coal prices could impact financials. **However, resolution or demerger of Mundra could aid valuations.**

Market Cap	Rs110bn/US\$1.7bn
Reuters/Bloomberg	ADAN.BO/ADANI IN
Shares Outstanding (mn)	3,857
52-week Range (Rs)	44/24
Free Float (%)	31.9
FII (%)	15.5
Daily Volume (US\$'000)	6,958
Absolute Return 3m (%)	(5.5)
Absolute Return 12m (%)	6.5
Sensex Return 3m (%)	5.0
Sensex Return 12m (%)	13.2

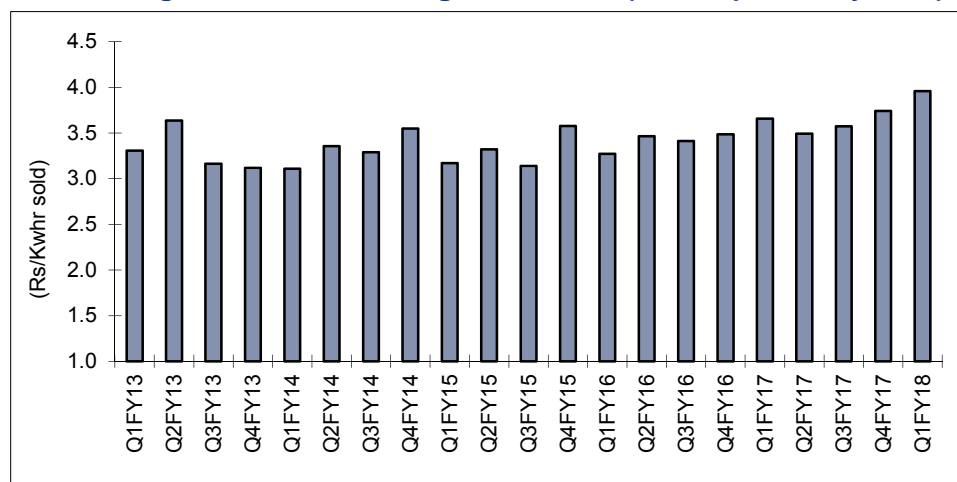
Year to Mar Consol	FY16	FY17P	FY18E	FY19E
Revenue (Rs mn)	252,316	227,838	221,472	239,269
Net Income (Rs mn)	4,885	(20,974)	(25,565)	(23,670)
DEPS (Rs)	1.5	(5.4)	(6.4)	(5.4)
% Chg YoY	(132.8)	(471.2)	17.3	(15.8)
P/E (x)	19.5	(5.3)	(4.5)	(5.3)
P/BV (Rs)	1.3	3.7	10.6	(74.2)
EV/E (x)	7.3	11.0	11.7	11.2
Dividend Yield (%)	-	-	-	-
RoCE (%)	12.5	6.0	5.4	5.9
RoE (%)	7.5	(40.4)	(125.4)	(521.8)

Please refer to important disclosures at the end of this report

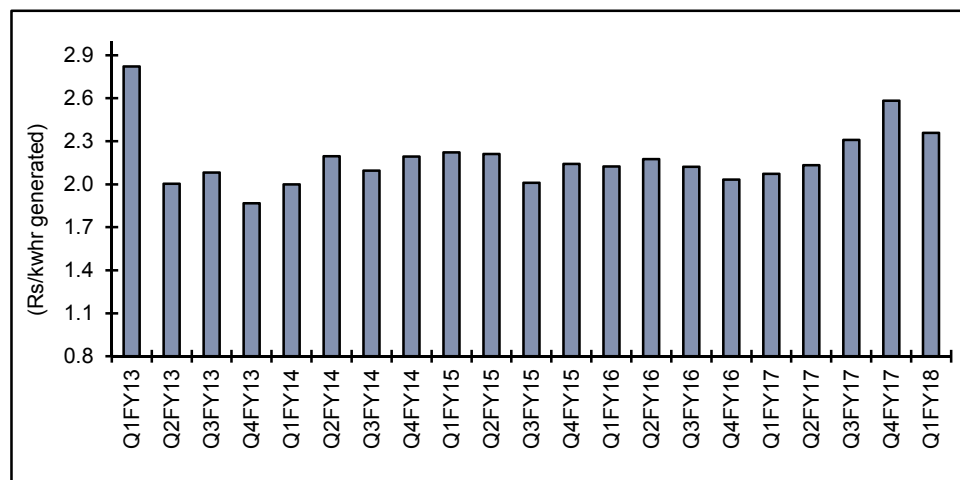
**Table 1: Q1FY18 result review (consolidated)***(Rs mn, year ending March 31)*

	Q4FY17	Q4FY16	% YoY	Q3FY17	% QoQ	I-Sec est.
# Of Units Generated	14,435	15,048	(4.1%)	16,892	(14.5%)	14,383
# Of Units Sold	13,670	13,960	(2.1%)	16,310	(16.2%)	13,376
Auxiliary Consumption	5.3%	7.2%		3.4%		7.0%
<b>Revenue</b>	<b>55,902</b>	<b>55,773</b>	<b>0.2%</b>	<b>63,522</b>	<b>(12.0%)</b>	<b>52,011</b>
<i>Per Unit sold</i>	<i>4.09</i>	<i>4.00</i>	<i>2.4%</i>	<i>3.89</i>	<i>5.0%</i>	<i>3.89</i>
<b>Fuel Cost (including forex)</b>	<b>34,055</b>	<b>31,195</b>	<b>9.2%</b>	<b>43,632</b>	<b>(22.0%)</b>	<b>37,395</b>
<i>Cost per unit generated</i>	<i>2.36</i>	<i>2.07</i>	<i>13.8%</i>	<i>2.58</i>	<i>(8.7%)</i>	<i>2.60</i>
<i>Cost per unit sold</i>	<i>2.49</i>	<i>2.23</i>	<i>11.5%</i>	<i>2.68</i>	<i>(6.9%)</i>	<i>2.80</i>
<b>O&amp;M</b>	<b>5,433</b>	<b>5,175</b>	<b>5.0%</b>	<b>5,172</b>	<b>5.1%</b>	<b>5,116</b>
<i>Cost per unit generated</i>	<i>0.38</i>	<i>0.34</i>	<i>9.4%</i>	<i>0.31</i>	<i>22.9%</i>	<i>0.36</i>
<i>Cost per unit sold</i>	<i>0.40</i>	<i>0.37</i>	<i>7.2%</i>	<i>0.32</i>	<i>25.3%</i>	<i>0.38</i>
<i>Staff Cost</i>	<i>1,139</i>	<i>1,063</i>	<i>7.1%</i>	<i>954</i>	<i>19.4%</i>	<i>950</i>
<i>Other Expenditure</i>	<i>4,294</i>	<i>4,112</i>	<i>4.4%</i>	<i>4,218</i>	<i>1.8%</i>	<i>4,166</i>
<b>EBITDA</b>	<b>15,603</b>	<b>19,151</b>	<b>(18.5%)</b>	<b>13,216</b>	<b>18.1%</b>	<b>9,500</b>
<i>Per Unit sold</i>	<i>1.14</i>	<i>1.37</i>	<i>(16.8%)</i>	<i>0.81</i>	<i>40.9%</i>	<i>0.71</i>
Depreciation	6,661	5,985	11.3%	8,685	(23.3%)	8,685
Other Income	579	419	38.1%	2,342	(75.3%)	750
<b>EBIT</b>	<b>9,520</b>	<b>13,586</b>	<b>(29.9%)</b>	<b>6,873</b>	<b>38.5%</b>	<b>1,565</b>
Interest	14,070	14,515	(3.1%)	15,864	(11.3%)	16,022
Exceptional	-	-	NM	40,767	NM	-
<b>PBT</b>	<b>(4,550)</b>	<b>(929)</b>	<b>389.6%</b>	<b>(49,758)</b>	<b>(90.9%)</b>	<b>(14,457)</b>
Tax	(11)	(617)		(152)	92.5%	-
<b>PAT</b>	<b>(4,539)</b>	<b>(312)</b>	<b>1354.2%</b>	<b>(49,605)</b>	<b>(90.9%)</b>	<b>(14,457)</b>
<i>Per Unit sold</i>	<i>(0.33)</i>	<i>(0.02)</i>	<i>1385.0%</i>	<i>(3.04)</i>	<i>(89.1%)</i>	<i>(1.08)</i>

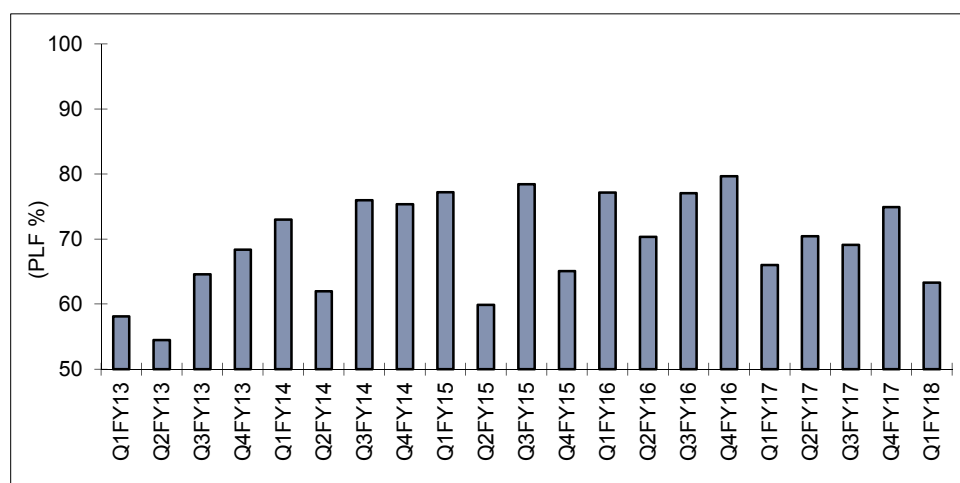
Source: Company data, I-Sec research

**Chart 1: Slight increase in average realisation (ex-compensatory tariff) QoQ**

Source: Company data, I-Sec research

**Chart 2: Fuel cost/unit dips in Q1FY18**

Source: Company data, I-Sec research

**Chart 3: Utilisations weak on demand backdowns & maintenance shutdowns**

Source: Company data, I-Sec research

## Q1FY18 earnings call takeaways

- **PLF:**
  - Mundra – 63%
  - Tiroda – 63%
  - Kawai – 60%
  - Udupi – 69%
- **Units sold:**
  - Mundra – 5,751MUs
  - Tiroda – 4,571MUs
  - Kawai – 1,637MUs
  - Udupi – 1,694MUs
- **EBITDA (including other income):**
  - Mundra – Rs4.95bn
  - Tiroda – Rs6.13bn
  - Kawai – Rs3.93bn
  - Udupi – Rs2.46bn (including other income of Rs150mn)
- **Q1FY18 merchant volume:** 935MUs vs 1,262MUs in Q1FY17
- **Q1FY18 merchant realisation:** Rs4.19/kWr vs Rs3.95/kWhr
- **Demerger of Mundra** is expected to be completed by Dec'17. The National Company Law Tribunal (NCLT) has already set dates for shareholder and creditor meetings.
- **Depreciation** declined QoQ as Q4FY17 numbers had government grant recognition, due to which additional depreciation had to be provided for and other income was increased correspondingly. As per the management, Q4FY17 depreciation rate is sustainable.
- **Finance cost** declined QoQ on account of MTM recognition due INR appreciation (impact to the tune of Rs1.5bn).
- **Udupi performance in Q1FY18:**
  - Revenue: Rs8.06bn
  - PAT: Rs140mn
- Company will be participating in 'SHAKTI' for coal linkages at Tiroda (current FSA of 5mntpa against requirement of 13mntpa) and Kawai (no linkage currently). For Mundra however, this will be taken up later on account of high cost of freight due to plant location.
  - Saving from this move will depend on coal prices, but the management expects 10-15% reduction in coal cost at both the plants.

- During the quarter, prior-period revenue of Rs2.9bn (on account of historically busy-period surcharge, contribution to national mineral fund, etc.) was recognised at Tiroda and Kawai.
- Company's Korba West power plant acquisition is on track with discussions underway with OEMs, etc. Management indicated a deal value of Rs60mn-65mn/MW. In addition to payment of Rs7.75bn for acquisition of 100% of outstanding shares of Korba West (plus taking over the existing liabilities), Adani Power has also extended a loan worth Rs13.6bn to the sellers (at an interest of 10% p.a.).
- Consolidated external debt at Q1FY18-end declined by Rs5bn on account of repayment during the quarter.
- Company is targeting an annual debt repayment of Rs25bn, of which Rs15bn will be towards repayment of Mundra's debt.

## Change in earnings estimate

We revise our EPS estimate downward to (Rs6.4) / (Rs5.4) for FY18/FY19 as we lower our power generation assumptions (given demand backdowns) and suspension of power supply to Gujarat from Mundra. However, the impact of this has been partially offset by marginal improvement in our merchant tariff assumptions and decline in coal costs on account of INR strengthening.

We now assume equity infusion worth Rs4.2bn and Rs11.2bn in FY18/FY19 (issue of 150mn and 400mn shares respectively at Rs28/share). However, in the event of Mundra hive-off, such infusion would not be needed.

**Table 2: Earnings estimate revisions**

(Rs mn)

	FY18E			FY19E		
	Previous	Revised	% chg	Previous	Revised	% chg
Sales	266,112	221,472	(16.8)	271,026	239,269	(11.7)
EBITDA	55,820	54,736	(1.9)	55,583	56,147	1.0
EPS (Rs)	(4.7)	(6.4)	NM	(4.2)	(5.4)	NM

Source: Company data, CEA, I-Sec research

**Table 3: APL – SoTP valuations**

Project	Capacity (MW)	CoD	Cost of equity (%)	Value (Rs mn)	Stake (%)	Current Value/share (Rs)	Previous Value/share (Rs)
Mundra	4,620	FY11-FY13	12.5	4,963	100	1.3	(0.0)
Tiroda	3,300	FY13-14	12.5	49,188	100	12.8	17.3
Kawai	1,320	FY14	12.5	46,545	100	12.1	7.1
Udupi	1,200	FY16*	12.5	13,245	100	3.4	3.3
Cash end-FY17						1.6	1.6
Unallocated debt						(21.9)	(21.9)
Bailout compensation till Q1FY18 at an option value of 80% given Mundra CT has been written off post adverse Supreme Court order						9.8	11.4
<b>Total value</b>						<b>19</b>	<b>17</b>

Source: I-Sec research

## Valuation methodology and risks

We maintain **SELL** on APL with a revised SoTP-based target price of Rs19/share (Rs17/share previously) mainly due to improvement in merchant realisations and INR strengthening (which will lower the cost of imported coal). Mundra, in its current form, is a major drag on the company's profitability and valuations.

The upside risks to our call are: i) resolution or demerger of Mundra, ii) further equity dilution at attractive prices boosting financials, iii) higher plant utilisations and merchant realisations, and iv) lower than expected fuel cost.

## Financial summary (consolidated)

**Table 4: Profit & loss statement**

(Rs mn, year ending March 31)

	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
<b>Operating Income (Sales)</b>	<b>67,738</b>	<b>157,540</b>	<b>187,962</b>	<b>252,316</b>	<b>227,838</b>	<b>221,472</b>	<b>239,269</b>
<b>Operating Expenses</b>	<b>58,198</b>	<b>110,955</b>	<b>136,644</b>	<b>166,786</b>	<b>168,122</b>	<b>166,736</b>	<b>183,121</b>
<b>EBITDA</b>	<b>9,540</b>	<b>46,585</b>	<b>51,318</b>	<b>85,529</b>	<b>59,717</b>	<b>54,736</b>	<b>56,147</b>
% margins	14.1%	29.6%	27.3%	33.9%	26.2%	24.7%	23.5%
Depreciation & Amortisation	12,897	22,185	18,182	23,362	26,724	25,480	25,480
Gross Interest	17,029	40,100	48,635	59,642	59,017	56,217	55,364
Other Income	1,952	2,003	2,690	2,018	4,190	1,396	1,026
<b>Recurring PBT</b>	<b>(18,433)</b>	<b>(13,696)</b>	<b>(12,809)</b>	<b>4,544</b>	<b>(21,835)</b>	<b>(25,565)</b>	<b>(23,670)</b>
Add: Extraordinaries	251	-	4,653	-	(40,767)	-	-
Less: Taxes	4,768	(10,790)	-	(341)	(861)	-	-
Less: Minority Interest	-	-	-	-	-	-	-
<b>Net Income (Reported)</b>	<b>(22,950)</b>	<b>(2,906)</b>	<b>(8,156)</b>	<b>4,885</b>	<b>(61,741)</b>	<b>(25,565)</b>	<b>(23,670)</b>
<b>Recurring Net Income</b>	<b>(23,201)</b>	<b>(2,906)</b>	<b>(12,809)</b>	<b>4,885</b>	<b>(20,974)</b>	<b>(25,565)</b>	<b>(23,670)</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**

(Rs mn, year ending March 31)

	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
<b>Assets</b>							
Total Current Assets	60,203	83,780	127,905	188,611	168,312	162,005	147,863
of which cash & cash eqv.	18,724	15,261	8,563	8,687	6,042	16,060	(683)
Total Current Liabilities & Provisions	77,966	80,453	80,076	94,155	130,472	126,345	129,079
<b>Net Current Assets</b>	<b>(17,764)</b>	<b>3,327</b>	<b>47,828</b>	<b>94,456</b>	<b>37,839</b>	<b>35,660</b>	<b>18,784</b>
<b>Investments</b>	<b>224</b>	<b>1,153</b>	<b>3,573</b>	<b>1</b>	<b>1,643</b>	<b>1,643</b>	<b>1,643</b>
of which							
Other Marketable	224	1,153	3,573	1	1,643	1,643	1,643
<b>Net Fixed Assets</b>	<b>489,149</b>	<b>502,456</b>	<b>453,265</b>	<b>505,064</b>	<b>545,155</b>	<b>521,491</b>	<b>498,511</b>
of which							
Capital Work-in-Progress	198,332	38,811	2,468	2,468	1,246	561	561
<b>Total Assets</b>	<b>471,609</b>	<b>506,936</b>	<b>504,666</b>	<b>599,521</b>	<b>584,638</b>	<b>558,795</b>	<b>518,938</b>
<b>Liabilities</b>							
<b>Borrowings</b>	<b>417,954</b>	<b>441,502</b>	<b>447,420</b>	<b>523,904</b>	<b>552,306</b>	<b>545,687</b>	<b>518,301</b>
<b>Deferred Tax Liability</b>	<b>10,720</b>	<b>-</b>	<b>-</b>	<b>1,851</b>	<b>2,337</b>	<b>2,337</b>	<b>2,337</b>
Equity Share Capital	23,932	28,719	28,719	33,339	38,569	40,069	44,069
Face Value per share (Rs)	10	10	10	10	10	10	10
Reserves & Surplus*	19,001	36,715	28,527	40,426	(8,574)	(29,298)	(45,768)
<b>Net Worth</b>	<b>42,934</b>	<b>65,434</b>	<b>57,246</b>	<b>73,765</b>	<b>29,996</b>	<b>10,771</b>	<b>(1,699)</b>
<b>Total Liabilities</b>	<b>471,609</b>	<b>506,936</b>	<b>504,666</b>	<b>599,521</b>	<b>584,638</b>	<b>558,795</b>	<b>518,938</b>

Source: Company data, I-Sec research

**Table 6: Quarterly trend**

(Rs mn, year ending March 31)

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Total Revenues	57,433	61,841	76,450	55,773	57,643	58,035	63,522	55,902
EBITDA	17,855	20,036	34,121	19,151	18,093	16,392	13,216	15,603
Margin (%)	31.1	32.4	44.6	34.3	34.3	28.4	20.8	27.9
Other income	406	267	1,210	419	1,056	691	2,342	579
Add: Extraordinaries	-	-	-	-	-	-	(40,767)	-
<b>Net profit</b>	<b>(4,047)</b>	<b>1,095</b>	<b>10,212</b>	<b>(312)</b>	<b>(1,134)</b>	<b>(3,236)</b>	<b>(49,605)</b>	<b>(4,539)</b>

Source: Company data, I-Sec research

**Table 7: Cashflow statement**

(Rs mn, year ending March 31)

	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
<b>Operating Cashflow</b>	<b>(12,256)</b>	<b>17,275</b>	<b>2,683</b>	<b>26,229</b>	<b>1,560</b>	<b>(1,482)</b>	<b>783</b>
Working Capital Changes	7,957	(24,554)	(51,200)	(46,503)	53,971	12,197	134
Capital Commitments	(59,789)	(35,492)	31,010	(75,161)	(66,815)	(1,815)	(2,500)
<b>Free Cashflow</b>	<b>(64,089)</b>	<b>(42,771)</b>	<b>(17,507)</b>	<b>(95,435)</b>	<b>(11,284)</b>	<b>8,900</b>	<b>(1,583)</b>
<b>Cashflow from Investing Activities</b>	<b>9,364</b>	<b>1,074</b>	<b>270</b>	<b>5,590</b>	<b>2,547</b>	<b>1,396</b>	<b>1,026</b>
Issue of Share Capital	2,132	25,422	-	11,634	(22,796)	6,340	11,200
Buyback of shares	-	-	-	-	-	-	-
Inc (Dec) in Borrowings	31,951	23,548	5,917	76,485	28,402	(6,619)	(27,386)
Dividend paid	-	-	-	-	-	-	-
<b>Extraordinary Items</b>	<b>251</b>	<b>-</b>	<b>4,653</b>	<b>-</b>	<b>(40,767)</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balances</b>	<b>(17,946)</b>	<b>(3,463)</b>	<b>(6,698)</b>	<b>125</b>	<b>(2,645)</b>	<b>10,018</b>	<b>(16,743)</b>

Source: Company data, I-Sec research

**Table 8: Key ratios**

(Year ending March 31)

	FY13	FY14	FY15	FY16	FY17P	FY18E	FY19E
<b>Per Share Data (in Rs.)</b>							
EPS(Basic Recurring)	(9.6)	(1.0)	(2.8)	1.5	(16.0)	(6.4)	(5.4)
Diluted Recurring EPS	(9.7)	(1.0)	(4.5)	1.5	(5.4)	(6.4)	(5.4)
Recurring Cash EPS	(4.3)	6.7	1.9	8.5	1.5	(0.0)	0.4
Dividend per share (DPS)	-	-	-	-	-	-	-
Book Value per share (BV)	17.9	22.8	19.9	22.1	7.8	2.7	(0.4)
<b>Growth Ratios (%)</b>							
Operating Income	65.6	132.6	19.3	34.2	(9.7)	(2.8)	8.0
EBITDA	(28.0)	388.3	10.2	66.7	(30.2)	(8.3)	2.6
Recurring Net Income	2,410.4	(87.5)	340.8	(138.1)	(529.4)	21.9	(7.4)
Diluted Recurring EPS	2,186.7	(89.6)	340.8	(132.8)	(471.2)	17.3	(15.8)
Diluted Recurring CEPS	(288.5)	(255.9)	(72.1)	352.9	(82.4)	(101.4)	(2,030.9)
<b>Valuation Ratios (x)</b>							
P/E	(3.0)	(28.3)	(6.4)	19.5	(5.3)	(4.5)	(5.3)
P/CEPS	(6.6)	4.3	15.3	3.4	19.2	(1,344.8)	69.6
P/BV	1.6	1.3	1.4	1.3	3.7	10.6	(74.2)
EV / EBITDA	53.4	11.5	10.7	7.3	11.0	11.7	11.2
EV / Operating Income	7.5	3.4	2.9	2.5	2.9	2.9	2.6
EV / Operating FCF	(8.0)	(12.5)	(31.4)	(6.6)	(58.2)	71.9	(397.6)
<b>Operating Ratios</b>							
Employee cost / Revenue	11.0	6.6	7.7	5.7	6.9	6.8	6.5
Op. expenses / Revenue	2.2	1.6	1.7	1.3	1.8	2.0	1.9
Other Income / PBT (%)	(10.6)	(14.6)	(21.0)	44.4	(19.2)	(5.5)	(4.3)
Effective Tax Rate (%)	(25.9)	78.8	-	(7.5)	3.9	-	-
NWC / Total Assets (%)	(7.7)	(2.4)	7.8	14.3	5.4	3.5	3.8
Inventory Turnover (days)	88.3	54.7	45.7	40.3	42.2	41.0	32.6
Receivables (days)	63.1	66.9	108.1	139.5	180.4	152.9	133.6
Payables (days)	27.4	35.0	98.4	128.7	145.7	152.6	138.2
D/E Ratio (x)	10.0	6.7	7.8	7.1	18.5	50.9	(306.5)
<b>Profitability Ratios (%)</b>							
Rec. Net Income Margins	(33.3)	(1.8)	(6.7)	1.9	(9.0)	(11.5)	(9.9)
RoCE	(0.4)	1.1	7.1	12.5	6.0	5.4	5.9
RoNW	(44.9)	(5.4)	(20.9)	7.5	(40.4)	(125.4)	(521.8)
Dividend Payout	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-
EBITDA Margins	14.1	29.6	27.3	33.9	26.2	24.7	23.5

Source: Company data, I-Sec research



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