

**HOLD**

TP: Rs 9,396 | ▲ 11%

**ULTRATECH CEMENT**

| Cement

| 20 October 2023

### Steady performance with no big surprises

- Q2 revenue up 15% YoY backed by 16% rise in dispatches; realisations resilient despite volume push in a monsoon quarter
- EBITDA margin climbed 240bps YoY to 15.1% on lower-than-expected fuel cost
- Positives priced in; maintain HOLD with an unchanged TP of Rs 9,396

Milind Raginwar | Shree Kirloskar  
research@bobcaps.in

**Realisations intact despite volume push:** UTCEM reported 15% YoY (-10% QoQ) revenue growth to Rs 155.2bn in Q2FY24, largely in line with our estimate. Domestic grey cement volumes grew 15% YoY (-12% QoQ) to 25.1mn tonnes. As expected, capacity utilisation stood at ~75% vs. ~86% in Q1. Realisations adjusted for incentive receipt were stable YoY (+2% QoQ), indicating that UTCEM was able to shift volumes out of non-remunerative regions where prices were soft during the quarter and sell in higher paying markets.

**Cost structure improves; further room for reduction:** Operating cost per tonne declined 3.6% YoY (+4.1% QoQ) to Rs 5,217/t but was higher than expected due to non-recurring staff (Rs 0.4bn-0.5bn) and other expenses. The opex decline was driven by lower fuel expenses at Rs 1,586/t (-11.6% YoY/-1.3% QoQ). Blended fuel consumption cost for the quarter was US\$ 162/t (-19% YoY) and UTCEM expects a further reduction in Q3. Logistics cost/t was flat YoY and fell 2.9% QoQ to Rs 1,373/t owing to lower lead distance (-25km YoY). Other expenditure increased 16.4% YoY (+11% QoQ) to Rs 21.4bn due to maintenance shutdown costs.

**Sizeable increase in EBITDA; scope for further margin gains:** EBITDA rose 37% YoY (-19% QoQ) to Rs 23.5bn with margin expansion to 15.1% from 12.7% in Q2FY23 (~17% in Q1FY24) on the back of cost savings. EBITDA/t increased 18% YoY (-8% QoQ) to Rs 931/t. Without the one-off staff expense and with added fuel cost savings, EBITDA margin is likely to expand further next quarter.

**Capex mode continues:** UTCEM added 2.5mt of capacity in Q2 (including ~1.2mt of debottlenecking), taking its total cement capacity to 132.4mt. Capex spend in Q2FY24/H1FY24 was Rs 25.4bn/Rs 45bn, out of management's full-year guidance of Rs 60bn-70bn. Net debt increased by Rs 22.1bn.

**Maintain HOLD:** We maintain our FY24/FY25 forecasts and continue to value the stock at 15x FY25E EV/EBITDA, in line with the 10Y mean, retaining our TP of Rs 9,396. At our TP, the stock trades at a replacement cost of Rs 20bn/mt, 2.5x premium to the industry. Maintain HOLD on limited upside potential.

### Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	UTCEM IN/Rs 8,461
Market cap	US\$ 29.7bn
Free float	40%
3M ADV	US\$ 32.8mn
52wk high/low	Rs 8,751/Rs 6,316
Promoter/FPI/DII	60%/15%/17%

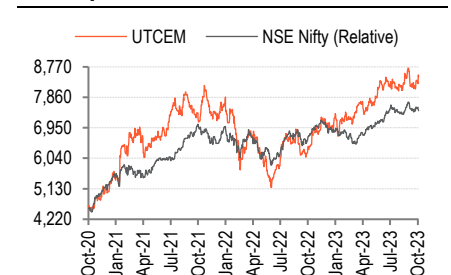
Source: NSE | Price as of 20 Oct 2023

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	6,04,626	6,67,249	7,70,626
EBITDA (Rs mn)	99,312	1,35,942	1,75,458
Adj. net profit (Rs mn)	49,169	69,937	98,050
Adj. EPS (Rs)	170.3	242.3	339.7
Consensus EPS (Rs)	170.3	266.0	326.0
Adj. ROAE (%)	9.6	12.5	15.5
Adj. P/E (x)	49.7	34.9	24.9
EV/EBITDA (x)	24.2	17.7	13.8
Adj. EPS growth (%)	(24.7)	42.2	40.2

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



**Fig 1 – Earnings call highlights**

Parameter	Q2FY24	Q1FY24	Our view
Volumes and Realisations	<p>Domestic volumes grew 15% YoY and utilisation stood at 75% in Q2. The white cement and RMC segments have grown 15% and 31% YoY respectively and overall trade volumes were up 67%.</p> <p>Prices across India were up 7-8% on an average during Q2. Given the current pressure on cost, management expects prices to sustain in Q3.</p> <p>Prices of white cement and putty remained subdued.</p>	<p>Domestic volumes grew 20% YoY and utilisation stood at 86% overall. Rural sales formed 65% of trade volumes and grew at 24% YoY. RMC volumes grew 37% YoY and 8% QoQ.</p> <p>Price hikes are expected from Q3 with trade and non-trade prices likely to converge.</p>	<p>Infrastructure-driven demand is likely to be stronger in H2FY24. Strong demand resurgence post monsoon is the key for price revival and sustainability.</p>
Margins	<p>On a per-tonne basis, raw material cost rose 3% YoY (-5.6% QoQ) while logistics cost decreased 0.3% YoY and 2.9% QoQ. Fuel cost stood at Rs 2.1/kcal, pet coke price was at US\$ 138/t and blended fuel consumption stood at US\$ 162/t. Management expects fuel cost to decline in Q3FY24.</p>	<p>Per-tonne raw material costs rose 6% YoY and 1% QoQ due to higher slag and fly ash costs, while logistics costs increased 1% YoY and QoQ because of seasonal surcharges. Fuel cost stood at Rs 2.3/kcal from Rs 2.2/kcal a year ago (Rs 2.5/kcal in Q4) but are guided to soften. Pet coke price was at US\$ 115/t (US\$ 125/t landed).</p>	<p>We see further headroom for cost savings that can augment margins. Revival in pricing will further cushion margins.</p>
Capacity	<p>UTCEM added 2.5mt of capacity during Q2 (including ~1.2mt through debottlenecking). India's total cement capacity is currently ~132.4mt.</p> <p>The company will add 22.6mt of capacity along with 3 slag mills (aggregating 1.8mt) by Jun'25, as per its phase-2 growth plans.</p> <p>Total capacity post phase-2 will rise to ~159.65mt.</p>	<p>UTCEM commissioned 4.3mt in the northeast and western regions, taking total domestic capacity to 131.25mt.</p> <p>The company will complete grinding debottlenecking at 4-5 locations by FY24-end, providing incremental capacity of 4mt.</p> <p>Management has guided for an increase in RMC plant count from 232 to 300 by FY24-end.</p>	<p>Capacity expansion plans are on schedule. The phase-3 plan suggests capacity/volume market share to be maintained till FY28-FY29.</p>
Capex	<p>Capex till H1FY24 totalled ~Rs 45bn out of the Rs 60bn-70bn guided by management for FY24. Capex during Q2FY24 was Rs 25.4bn and has been largely used for expansion plans. Net debt increased by Rs 22.1bn</p>	<p>Management has guided for Rs 60bn-70bn in capex in FY24-FY25 each, including Rs 2.5bn for AFR improvements at various plants.</p> <p>Current capex is targeted to range below US\$ 76/t. Management expects capex for phase-3 expansion to remain competitive.</p> <p>Quarterly cash spend on annual capex stood at ~Rs 17.9bn. Net debt reduced by Rs 2.3bn.</p>	<p>Superior performance despite very aggressive capex with sharp monitoring of spending has been the highlight and is expected to remain the same in next 2 years.</p>
Green energy	<p>Green energy formed 22% of UTCEM's total power consumption as on H1FY24. Management expects to raise this share to 50-60% by FY25-FY26.</p>	<p>UTCEM has guided for the addition of 386MW of wind power and 260MW of solar power by Jun'24. It also expects to increase WHRS from 233MW to 300MW by FY24-end and 425MW by FY26-end.</p> <p>Management is targeting an increase in AFR usage from 5% to 9-10% by FY25-end.</p>	<p>Cost efficiency will be contributed by the use of alternate fuels that can also serve as a cushion against conventional energy cost spikes.</p>
Other key points	<p>Other operating income increased by Rs 100mn as a result of incentives received.</p>	<p>Other expenses were lower sequentially as advertising expenses increased in Q4FY23 and maintenance cost was lower in Q1FY24.</p> <p>Other operating income rose by Rs 9.2bn QoQ as incentives were received for some plants.</p>	<p>UTCEM's balance sheet remains strong and is likely to strengthen further in the next couple of years following the contribution of the new units in the business.</p>

Source: Company, BOBCAPS Research | RMC: Ready Mix Concrete, WHRS: Waste Heat Recovery System, AFR: Alternate Fuel & Raw Material

**Fig 2 – Key quarterly metrics**

Parameter	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Volumes (mn mt)	25.2	21.8	16.0	28.6	(11.7)
Cement realisations (Rs/mt)	5,455	5,522	(1.2)	5,352	1.9
Operating costs (Rs/mt)*	5,217	5,410	(3.6)	5,013	4.1
EBITDA/t (Rs)	931	789	18.0	1,017	(8.4)

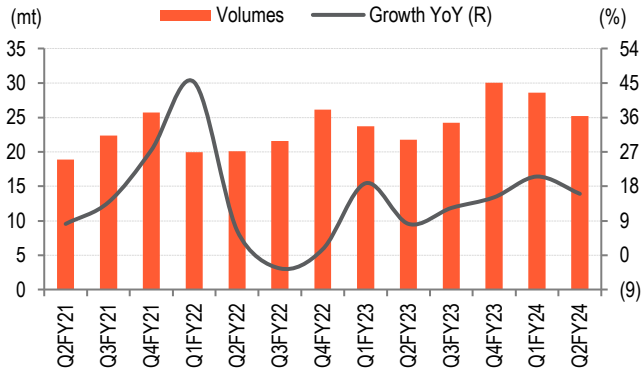
Source: Company, BOBCAPS Research | \*Aggregate cost

**Fig 3 – Quarterly performance**

(Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Net Sales</b>	<b>155,170</b>	<b>134,820</b>	<b>15.1</b>	<b>172,452</b>	<b>(10.0)</b>
<b>Expenditure</b>					
Change in stock	(2,246)	(2,948)	(23.8)	(321)	600.6
Raw material	21,837	19,372	12.7	23,844	(8.4)
Purchased products	8,373	7,401	13.1	8,676	(3.5)
Power & fuel	40,029	39,026	2.6	44,794	(10.6)
Freight	34,661	29,968	15.7	40,458	(14.3)
Employee costs	7,598	6,445	17.9	6,610	15.0
Other expenses	21,415	18,397	16.4	19,305	10.9
Total Operating Expenses	131,668	117,660	11.9	143,366	(8.2)
<b>EBITDA</b>	<b>23,502</b>	<b>17,160</b>	<b>37.0</b>	<b>29,086</b>	<b>(19.2)</b>
EBITDA margin (%)	15.1	12.7	242bps	16.9	(172bps)
Other Income	2,088	1,645	26.9	2,582	(19.1)
Interest	2,100	1,867	12.5	1,911	9.9
Depreciation	7,279	6,427	13.2	6,820	6.7
PBT	16,211	10,510	54.2	22,937	(29.3)
Non-recurring items	0	0	0.0	0	0.0
PBT (after non-recurring items)	16,211	10,510	54.2	22,937	(29.3)
Tax	4,155	3,327	24.9	5,882	(29.4)
Reported PAT	12,057	7,184	67.8	17,055	(29.3)
<b>Adjusted PAT</b>	<b>12,057</b>	<b>7,184</b>	<b>67.8</b>	<b>17,055</b>	<b>(29.3)</b>
NPM (%)	7.8	5.3	244bps	9.9	(212bps)
<b>Adjusted EPS (Rs)</b>	<b>41.8</b>	<b>24.9</b>	<b>67.8</b>	<b>59.1</b>	<b>(29.3)</b>

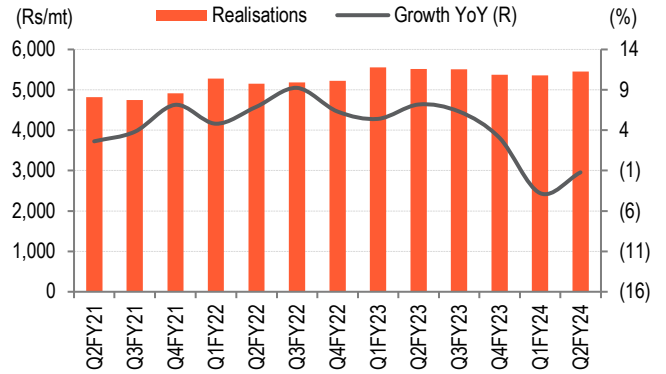
Source: Company, BOBCAPS Research

**Fig 4 – Healthy YoY volume gains even in monsoon quarter**



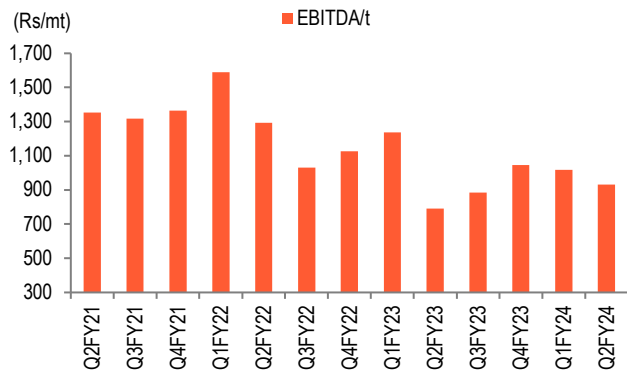
Source: Company, BOBCAPS Research

**Fig 5 – Realisations resilient**



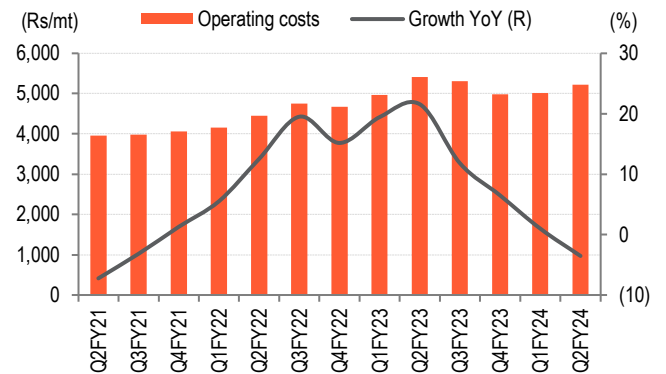
Source: Company, BOBCAPS Research

**Fig 6 – EBITDA/t moves up YoY, further room for gains**



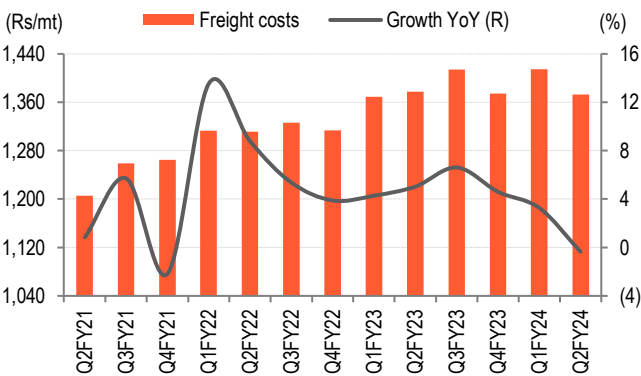
Source: Company, BOBCAPS Research

**Fig 7 – Cost savings lower than expected due to one-offs**



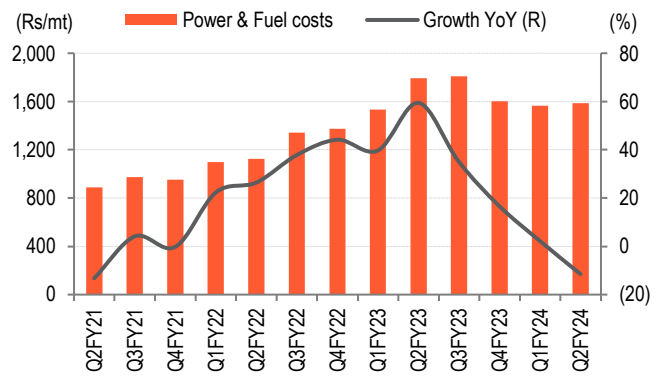
Source: Company, BOBCAPS Research

**Fig 8 – Lower lead distance helped reduce freight cost**



Source: Company, BOBCAPS Research

**Fig 9 – Softening fuel expenses a key driver for savings**



Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our FY24/FY25 estimates and continue to model for a revenue/EBITDA/PAT CAGR of 16%/18%/12% for UTCEM over FY22-FY25. We believe the company's strong leadership position will help it improve realisations even as further cost savings will aid margin gains over our forecast period. The white cement segment only adds comfort. Despite capex-heavy initiatives that are targeted to raise capacity 15% to ~160mt by FY25/FY26, we expect the company's balance sheet to remain sound, driving our forecast of higher ROCE/ROE at 20%/16% by FY25.

We continue to value the stock at 15x FY25E EV/EBITDA, in line with the 10-year mean, and retain our TP of Rs 9,396. At our TP, the stock trades at a replacement cost of Rs 20bn/mt, a 2.5x premium to the industry which we believe is justified by the company's size, cost efficiencies and earnings visibility. However, given the limited upside potential from the current stock price, we maintain our HOLD rating.

**Fig 10 – Key assumptions**

Parameter	FY22	FY23	FY24E	FY25E
Volumes (mt)	87.60	103.13	110.20	126.01
Realisations (Rs/mt)	4,984	5,149	5,304	5,423
Operating costs (Rs/mt)	4,535	4,984	4,907	4,806
EBITDA/mt (Rs)	1,205	873	1,140	1,301

Source: Company, BOBCAPS Research

**Fig 11 – Valuation summary**

Business (Rs mn)	FY25E
Target EV/EBITDA (x)	15
EBITDA	1,75,458
<b>Target EV</b>	<b>26,75,738</b>
Total EV	26,75,738
Net debt	(36,511)
Target market capitalisation	27,12,249
<b>Target price (Rs/sh)</b>	<b>9396.3</b>
Weighted average shares (mn)	288.7

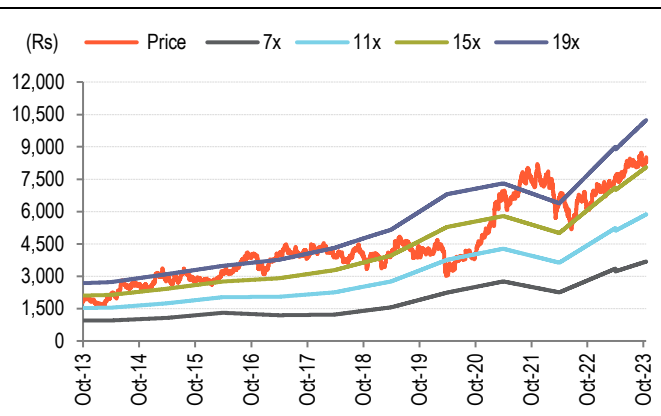
Source: BOBCAPS Research

**Fig 12 – Peer comparison**

Ticker	Rating	TP (Rs)	EV/EBITDA (x)			EV/tonne (US\$)			ROE (%)			ROCE (%)		
			FY23	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
UTCEM IN	BUY	9,396	24.9	18.0	13.7	228.8	226.7	192.8	9.6	12.5	15.5	12.0	16.4	20.0
ACC IN	HOLD	1,964	22.4	13.6	9.1	121.8	91.3	84.1	5.2	7.9	11.2	7.9	10.8	14.5
ACEM IN	HOLD	375	11.5	10.6	8.3	292.3	209.6	166.6	5.2	6.4	7.0	9.2	11.1	13.0

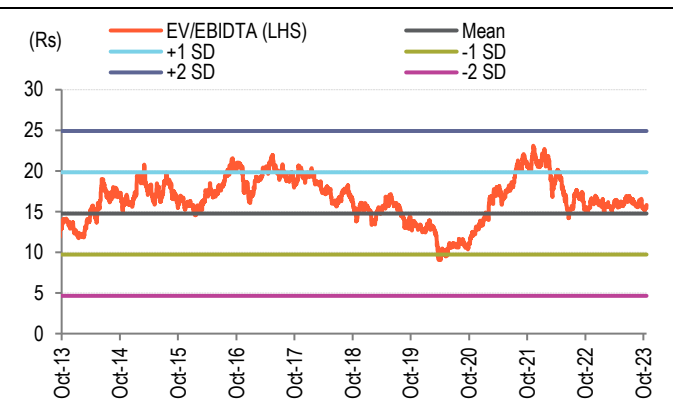
Source: BOBCAPS Research

**Fig 13 – Valuations stay range bound ~ 15x EV/EBITDA**



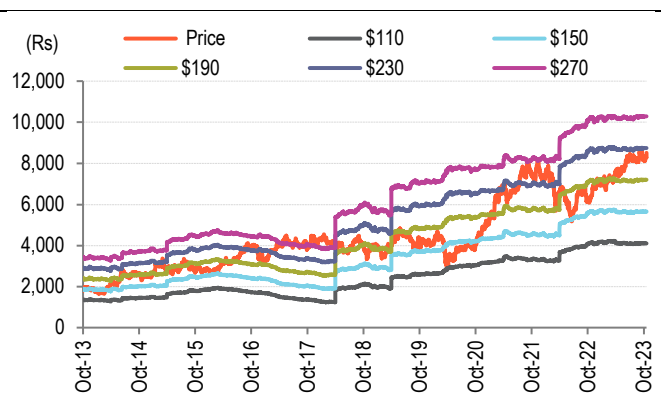
Source: Company, Bloomberg, BOBCAPS Research

**Fig 14 – Healthy contribution from new capex will further rationalize valuations**



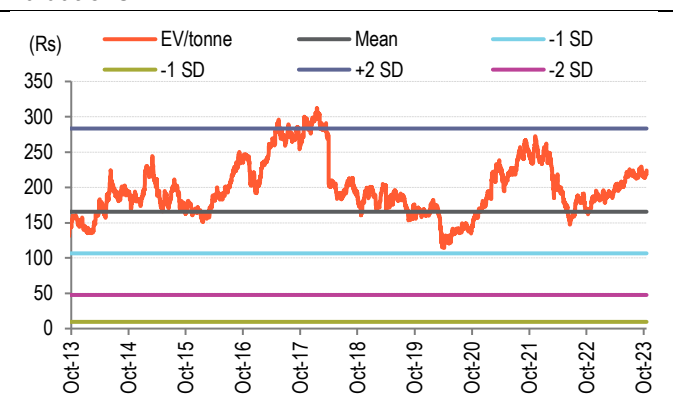
Source: Company, Bloomberg, BOBCAPS Research

**Fig 15 – Replacement cost premium to stay**



Source: Company, Bloomberg, BOBCAPS Research

**Fig 16 – Size, market leadership commands higher valuations**



Source: Company, Bloomberg, BOBCAPS Research

### Key risks

Key upside risks to our estimates are:

- delivery of better operating efficiencies than estimates, and
- price revival ahead of expectations in key markets.

Key downside risks to our estimates are:

- lower-than-estimated demand revival which can impact realisations,
- fierce competition that can keep a lid on prices, and
- above-estimated cost inflation over the next two years.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
ACC	ACC IN	4.5	1,963	1,964	HOLD
Ambuja Cements	ACEM IN	10.4	431	435	HOLD
Dalmia Bharat	DALBHARA IN	4.9	2,158	2,286	HOLD
JK Cement	JKCE IN	3.1	3,302	3,474	HOLD
JK Lakshmi Cement	JKLC IN	1.0	678	551	SELL
Orient Cement	ORCMNT IN	0.5	202	128	SELL
Shree Cement	SRCM IN	11.5	26,085	25,731	HOLD
Star Cement	STRCEM IN	0.9	169	159	HOLD
The Ramco Cements	TRCL IN	2.9	994	585	SELL
Ultratech Cement	UTCEM IN	29.7	8,461	9,396	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Oct 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Total revenue</b>	<b>4,26,770</b>	<b>4,97,294</b>	<b>6,04,626</b>	<b>6,67,249</b>	<b>7,70,626</b>
EBITDA	1,09,648	1,09,364	99,312	1,35,942	1,75,458
Depreciation	(24,344)	(24,568)	(26,192)	(29,335)	(33,736)
EBIT	93,191	90,915	80,014	1,13,919	1,50,816
Net interest inc./(exp.)	(12,591)	(7,983)	(7,550)	(8,125)	(7,938)
Other inc./(exp.)	7,887	6,118	6,894	7,313	9,094
Exceptional items	(1,640)	5,352	0	0	0
EBT	78,961	88,284	72,464	1,05,795	1,42,878
Income taxes	(25,540)	(17,618)	(23,295)	(35,857)	(44,828)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>53,421</b>	<b>70,666</b>	<b>49,169</b>	<b>69,937</b>	<b>98,050</b>
Adjustments	(1,640)	5,352	0	0	0
<b>Adjusted net profit</b>	<b>55,061</b>	<b>65,314</b>	<b>49,169</b>	<b>69,937</b>	<b>98,050</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	85,167	97,164	1,13,015	1,22,505	1,35,472
Other current liabilities	51,683	49,400	68,224	70,160	76,240
Provisions	8,358	8,175	7,779	8,259	8,774
Debt funds	1,73,235	1,06,874	1,01,440	56,221	70,226
Other liabilities	52,191	52,299	54,758	58,348	59,598
Equity capital	2,886	2,887	2,887	2,887	2,887
Reserves & surplus	4,30,640	4,89,820	5,26,482	5,85,612	6,72,855
Shareholders' fund	4,33,526	4,92,706	5,29,369	5,88,498	6,75,742
<b>Total liab. and equities</b>	<b>8,04,161</b>	<b>8,06,617</b>	<b>8,74,584</b>	<b>9,03,991</b>	<b>10,26,051</b>
Cash and cash eq.	1,38,459	56,853	72,802	49,849	1,06,737
Accounts receivables	22,860	27,068	32,422	36,237	42,379
Inventories	37,221	51,625	60,842	67,601	78,602
Other current assets	79,585	1,05,963	1,03,368	1,06,057	1,15,283
Investments	56,098	63,074	72,602	71,397	71,397
Net fixed assets	4,29,898	4,30,850	4,69,216	4,56,841	4,94,893
CWIP	15,221	46,191	38,072	90,000	90,000
Intangible assets	24,820	24,993	25,260	26,010	26,760
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>8,04,161</b>	<b>8,06,617</b>	<b>8,74,584</b>	<b>9,03,991</b>	<b>10,26,051</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Cash flow from operations</b>	<b>1,20,293</b>	<b>58,914</b>	<b>99,263</b>	<b>1,01,506</b>	<b>1,26,228</b>
Capital expenditures	(17,544)	(55,697)	(55,845)	(69,638)	(72,538)
Change in investments	(74,591)	58,463	(17,905)	19,205	(16,000)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(92,136)</b>	<b>2,766</b>	<b>(73,750)</b>	<b>(50,433)</b>	<b>(88,538)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(9,639)	(66,361)	(5,434)	(45,219)	14,005
Interest expenses	6	7	8	9	10
Dividends paid	(3,750)	(10,670)	(10,927)	(10,807)	(10,807)
Other financing cash flows	892	(816)	(1,579)	0	0
<b>Cash flow from financing</b>	<b>(12,497)</b>	<b>(77,848)</b>	<b>(17,940)</b>	<b>(56,026)</b>	<b>3,198</b>
<b>Chg in cash &amp; cash eq.</b>	<b>15,661</b>	<b>(16,167)</b>	<b>7,573</b>	<b>(4,953)</b>	<b>40,889</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,38,459</b>	<b>56,853</b>	<b>72,803</b>	<b>49,849</b>	<b>1,06,737</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	185.1	244.8	170.3	242.3	339.7
Adjusted EPS	190.8	226.3	170.3	242.3	339.7
Dividend per share	13.0	37.0	37.9	32.0	32.0
Book value per share	1,502.0	1,706.9	1,833.9	2,038.8	2,341.0

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	5.4	4.7	4.0	3.6	3.1
EV/EBITDA	20.9	21.6	24.2	17.7	13.8
Adjusted P/E	44.4	37.4	49.7	34.9	24.9
P/BV	5.6	5.0	4.6	4.2	3.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	67.7	80.0	67.9	66.1	68.6
Interest burden (PBT/EBIT)	86.5	91.2	90.6	92.9	94.7
EBIT margin (EBIT/Revenue)	21.8	18.3	13.2	17.1	19.6
Asset turnover (Rev./Avg TA)	56.1	61.7	71.9	75.0	79.9
Leverage (Avg TA/Avg Equity)	1.9	1.7	1.6	1.6	1.5
Adjusted ROAE	13.4	14.3	9.6	12.5	15.5

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	6.6	16.5	21.6	10.4	15.5
EBITDA	26.7	(0.3)	(9.2)	36.9	29.1
Adjusted EPS	50.8	18.6	(24.7)	42.2	40.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	25.4	21.6	16.2	20.1	22.5
EBIT margin	21.8	18.3	13.2	17.1	19.6
Adjusted profit margin	12.9	13.1	8.1	10.5	12.7
Adjusted ROAE	13.4	14.3	9.6	12.5	15.5
ROCE	14.7	13.9	12.0	16.4	20.0
<b>Working capital days (days)</b>					
Receivables	20	20	20	20	20
Inventory	32	38	37	37	37
Payables	96	89	80	83	82
<b>Ratios (x)</b>					
Gross asset turnover	0.8	0.9	1.0	1.0	1.1
Current ratio	1.9	1.6	1.4	1.3	1.6
Net interest coverage ratio	7.4	11.4	10.6	14.0	19.0
Adjusted debt/equity	0.4	0.2	0.2	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets



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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**  
 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**  
 Brand Name: **BOBCAPS**  
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**BUY** – Expected return >+15%

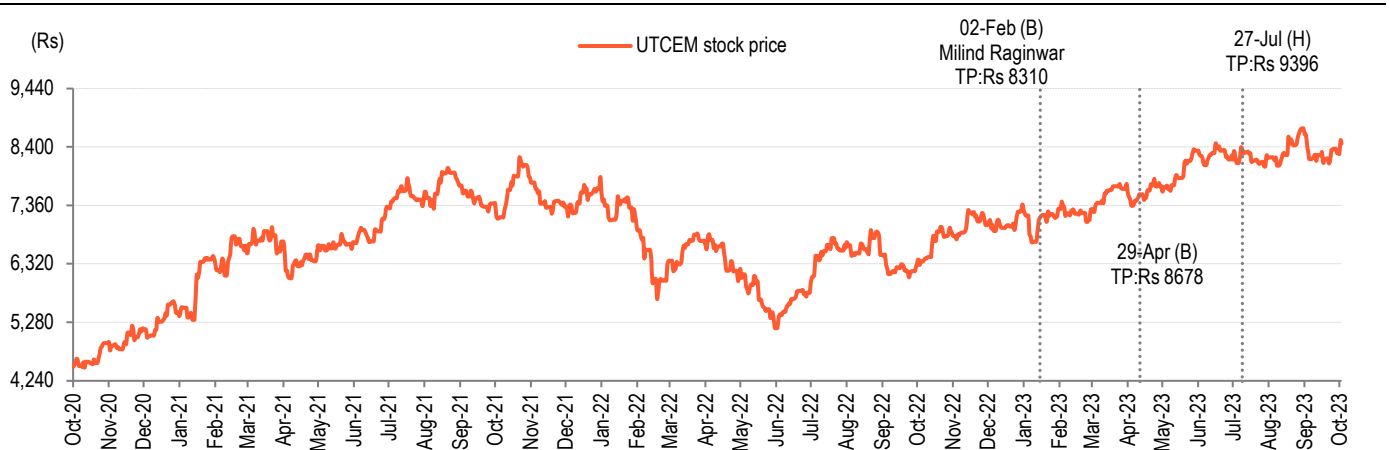
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): ULTRATECH CEMENT (UTCEM IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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