

# BAJAJ ELECTRICALS

## Consumer faring better versus peers; good EPC collections

India Equity Research | Consumer Durables



Bajaj Electricals (BJE) missed Q1FY21 estimates owing to adverse operating leverage in consumer business and sharp EPC loss. Highlight of the quarter was significant dip in interest cost (down 46% YoY), implying better collections in EPC and a flattish consumer revenue guidance (FY21) led by resilient tier II/rural demand pockets. Management remains focused on balance sheet improvement and is targeting cut in debt to INR5.5bn by FY21E (INR9.6bn in FY20) targeting reduction in receivables (INR23bn, INR8.8bn from UP). While we see BJE much better placed versus larger peers w.r.t. near-term demand confidence given its tier II penetration, we do not foresee material upside potential on growth/margin expectations. Receivables (especially from EPC) and turn around remain key. Tracking lower interest cost, we revise TP to INR420 (INR400 earlier). Retain 'HOLD'.

### Fixed cost, EPC losses dent Q1; better commentary versus peers

While BJE managed to clock decent gross margin and sharp dip in interest cost, loss in Q1 could be largely attributed to sustained costs and EPC losses as revenue plunged. Management commentary is encouraging with demand pick up in June-July across fans, kitchen appliances, strong e-commerce and retailer channel growth, while modern retail remained weak, indicating poor demand trend in urban centres. On growing competition from larger peers in tier II/rural markets, BJE believes it's more of a concern for unorganised players; in our view, it could impact BJE if larger peers are able to target better product positioning compatible with tier-II demand trend.

### Commendable job on cash flows; turnaround delayed by quarter

BJE posted strong cash flows reflecting in sharp dip in interest cost, leading management to guide for less than INR1.0bn interest cost for FY21E with a debt target of INR5.5bn (INR9.6bn in FY20). Receivables stand at INR23bn (including INR8.8bn from UP project), which were INR25bn in FY20. While EPC loss has expanded, given challenges management expects a turn around by Q1FY22 versus Q4FY21 earlier.

### Outlook and valuation: Attaining stability; maintain 'HOLD'

What we like about BJE is a resilient portfolio in consumer business with much deeper distribution versus peers. In our view, key to earnings and returns outperformance remains sharper focus on consumer product innovation and targeted approach in EPC. We maintain 'HOLD/SP'. The stock trades at 26x FY22E PE (CD segment EPS).

#### Financials

(INR mn)

Year to March	Q1FY21	Q1FY20	% Chg	Q4FY20	% Chg	FY20	FY21E	FY22E
Net revenues	6,077	12,978	(53.2)	12,996	(53.2)	49,771	49,503	56,520
EBITDA	(208)	749	NA	334	NA	2,069	2,157	3,364
Adjusted Profit	(419)	174	NA	0	NA	(1)	603	1,675
Adjusted Diluted EPS	(3.7)	1.7	NA	0	NA	0	5.3	14.7
Diluted P/E (x)							82.6	29.7
EV/EBITDA (x)						27.1	25.0	15.9
ROAE (%)							4.3	11.4

#### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

#### MARKET DATA (R: BJEL.BO, B: BJE IN)

CMP	: INR 437
Target Price	: INR 420
52-week range (INR)	: 467 / 260
Share in issue (mn)	: 113.8
M cap (INR bn/USD mn)	: 50 / 673
Avg. Daily Vol.BSE/NSE('000)	: 180.9

#### SHARE HOLDING PATTERN (%)

	Current	Q4FY20	Q3FY20
Promoters *	63.2	63.2	62.7
MF's, FI's & BK's	13.2	12.2	12.4
FII's	9.2	6.4	5.7
Others	14.4	18.2	19.2
* Promoters pledged shares (% of share in issue)			1.7

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	7.9	2.7	(2.7)
3 months	19.9	10.5	4.6
12 months	14.9	(1.0)	(26.2)

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### Q1FY21 conference call: Key highlights

#### Opening remarks by top management:

- June 2020 has seen YoY growth in consumer segment.
- Has been able to manage covid challenges well versus peers.
- E-commerce (fastest growth and at 12-13% of business vs 10% last year), retailers driving consumer growth while modern retail is weak.
- Larger peers targeting tier II, rural markets; BJE sees competition more for unorganized rather than for itself.
- For BJE, urban is 2/3<sup>rd</sup> while 1/3<sup>rd</sup> of consumer revenues come from rural market.

#### Outlook & guidance:

- Targeting INR 30 bn in consumer which is flattish YoY. In EPC, targeting flattish revenues YoY given healthy OB in hand.
- Expects interest cost to be below INR 1bn in FY21E, sharp drop YoY.
- The company has received payments in EPC which is a key focus area.
- April was zero, May was 50% lower, June-July onwards there has been a normalization vs YoY.
- Supply-chain issues are there as of today; expects these to normalize over two-three months.
- Looking at 1% improvement annually in consumer margin (intact guidance).
- EPC is now 1/3 of last year; we will not maintain current levels.
- Power distribution will remain a challenge in FY21; illumination and lighting should improve. Turn around for power distribution is now targeted by Q1FY22 vs Q4FY21E earlier.

#### Booking keeping:

- Lighting down 40% YoY, appliance by 53%, fans by 50% and Morph Richards by 51%. Qualitatively, continues to gain good traction in kitchen appliances and fans; coolers weak.
- Generally, **air coolers as an industry has higher inventory in hand; for BJE it is high too but lower versus larger peers.**
- Gross margins has seen strong improvement led by price increase (2-3%) across products.
- **Receivable** is at ~INR23 bn of which, INR 18.4bn is for EPC (INR6.6 bn is retention money included of which 2.0 bn for UP project), INR 4.59bn is for consumer durables(gross of channel finance). Channel finance is INR2.83bn. Retention money is collectible over FY21-22E depending on completion.
- **Receivables from UP project are INR8.8bn.**
- Q1FY21 employee cost is not down due to increments etc, QoQ should be down.

**Table 1: Segmental performance and estimates**

Year to March	Q1FY21	Q1FY20	% change	Q4FY20	% change	9MFY20	9MFY21E	% ask	FY20	FY21E	FY222E
<b>Revenues (INR mn)</b>											
Consumer durables	3,944	7,834	(49.7)	7,457	(47.1)	23,012.6	26,718.5	16%	30,846	30,662	36,719
Engineering & Projects	2,133	5,143	(58.5)	5,538	(61.5)	13,710.7	16,707.4	22%	18,918	18,840	19,801
<b>Total</b>	<b>6,077</b>	<b>12,977</b>	<b>(53.2)</b>	<b>12,995</b>	<b>(53.2)</b>	<b>36,723</b>	<b>43,426</b>	<b>18%</b>	<b>49,764</b>	<b>49,503</b>	<b>56,520</b>
<b>Segment rev. mix (%)</b>											
Consumer durables	64.9	60.4		57.4		62.7	61.5		62.0	61.9	65.0
Engineering & Projects	35.1	39.6		42.6		37.3	38.5		38.0	38.1	35.0
<b>EBIT (INR mn)</b>											
Consumer durables	105	545	(80.7)	476	(77.8)	1,537.1	1,765.0	15%	2,082	1,870	2,497
Engineering & Projects	(437)	208	(310.1)	(234)	86.9	(554.1)	399.2	-172%	(346)	(38)	713
<b>Total</b>	<b>(332)</b>	<b>753</b>	<b>(144.0)</b>	<b>242</b>	<b>(237.0)</b>	<b>983</b>	<b>2,164</b>	<b>120%</b>	<b>1,736</b>	<b>1,833</b>	<b>3,210</b>
<b>Segment EBIT margin (%)</b>											
Consumer durables	2.7	7.0		6.4		6.7	6.6		6.8	6.1	6.8
Engineering & Projects	(20.5)	4.0		(4.2)		(4.0)	2.4		(1.8)	(0.2)	3.6
<b>Total EBIT margins</b>	<b>(5.5)</b>	<b>5.8</b>		<b>1.9</b>		<b>2.7</b>	<b>5.0</b>		<b>3.5</b>	<b>3.7</b>	<b>5.7</b>

Source: Company, Edelweiss research

**Table 2: SoTP valuation**

(INR mn)	FY22E			Valuation			March 2022
	Revenue	PAT	EPS	Methodolgy	Multiple	Comment	TP (INR)
Electrical Consumer Durables Segment	36,719	1,716	15.1	P/E	25	At par with Consumer Durables Index	378
Engineering Segment	19,801	490	4.3	P/E	10	25% discount to Industrials PE	42
<b>Total</b>	<b>56,520</b>	<b>2,206</b>	<b>19</b>				<b>420</b>

Source: Edelweiss research

## Consumer Durables

### Financial snapshot

(INR mn)

Year to March	Q1FY21	Q1FY20	% change	Q4FY20	% change	FY20	FY21E	FY22E
Net revenues	6,077	12,978	(53.2)	12,996	(53.2)	49,771	49,503	56,520
Raw material	4,372	9,412	(53.5)	9,962	(56.1)	36,420	35,939	40,864
Staff costs	955	924	3.4	947	0.8	3,834	3,833	3,984
Other expenses	958	1,893	(49.4)	1,753	(45.3)	7,447	7,574	8,308
Total expenditure	6,285	12,228	(48.6)	12,662	(50.4)	47,702	47,345	53,156
EBITDA	(208)	749	NA	334	NA	2,069	2,157	3,364
Depreciation	172	161	6.9	182	(5.0)	680	669	684
EBIT	(380)	588	NA	153	NA	1,389	1,489	2,680
Interest	269	495	(45.7)	358	(24.9)	1,692	1,084	1,075
Other income	78	179	(56.6)	194	(59.9)	526	450	634
Add: Exceptional items	(147)	-	-	-	-	-	147	-
Profit before tax	(424)	273	NA	(11)	NA	224	1,002	2,239
Tax	(152)	99	NA	(11)	NA	225	252	564
Reported net profit	(272)	174	NA	-	NA	(1)	750	1,675
Adjusted Profit	(419)	174	NA	-	NA	(1)	603	1,675
Equity capital(FV INR 2)	-	202	-	202	-	228	228	228
Diluted shares (mn)	114	101	-	114	-	114	114	114
Adjusted Diluted EPS	(3.7)	1.7	NA	-	NA	-	5.3	14.7
Diluted P/E (x)	-	-	-	-	-	-	82.6	29.7
EV/EBITDA (x)	-	-	-	-	-	27.1	25.0	15.9
ROAE (%)	-	-	-	-	-	-	4.3	11.4
Direct costs	71.9	72.5	-	76.7	-	73.2	72.6	72.3
Employee cost	15.7	7.1	-	7.3	-	7.7	7.7	7.0
Other operating expenses	15.8	14.6	-	13.5	-	15.0	15.3	14.7
EBITDA	(3.4)	5.8	-	2.6	-	4.2	4.4	6.0
Adjusted net profit	(6.9)	1.3	-	-	-	-	1.2	3.0
Tax rate	35.9	36.3	-	100.0	-	100.6	25.2	25.2

## Company Description

Bajaj Electricals Limited, a globally renowned and trusted company, is a part of "Bajaj Group". Bajaj Electricals business is spread across – Consumer Products (Appliances, Fans, Lighting), Exports, Luminaires and EPC (Illumination, Transmission Towers and Power Distribution). Bajaj Electricals has 19 branch offices spread in different parts of the country besides being supported by a chain of distributors, authorized dealers, retail outlets, exclusive showrooms called 'Bajaj World' and approximately 462 customer care centres. It also has presence in the hi-end range of appliances with brands like Platini and Morphy Richards in India.

## Investment Theme

With its consumer-facing business growing steadily, BJE is now focused on growing its E&P division. It is the largest small appliances company in India and leader in the domestic small appliances market. Tie-ups with global majors such as Morphy Richards (UK) help the company compete with premium players such as Philips and Kenstar. BJE, a leading consumer appliances company, is in the midst of significant operational overhaul under its range reach expansion programme (RREP), which has had a bearing on its overall market positioning over the past few quarters. BJE has lost a substantial market share across key businesses owing to intensifying competition. We believe it will be challenging for management to narrow the yawning market share gap versus peers.

## Key Risks

The market in which BJE primarily operates consists of large unorganised market dotted with a small- and medium-size players. Over dependence on vendors or vendor buyout by a rival is a key risk. Furthermore, intense competition in the consumer durables segment can squeeze margins.

Increase in prices of key raw materials such as steel and zinc can dent margins of the EPC division. A greater contribution of EPC is likely to inflate debt via steeper working capital needs of the business.

## Financial Statements

### Key Assumptions

Year to March	FY19	FY20	FY21E	FY22E
<b>Macro</b>				
GDP(Y-o-Y %)	6.1	4.8	(4.0)	7.0
Inflation (Avg)	3.4	4.3	3.5	4.0
Repo rate (exit rate)	6.3	4.4	3.0	4.0
USD/INR (Avg)	70.0	70.7	75.0	73.0
<b>Company</b>				
Lighting Segment	11	9	(3)	16
Consumer Durable Segment	23	13	(1)	20
Fans	25.4	17.4	(5.1)	15.4
Appliances	25.5	11.4	2.0	22.4
E&P segment	58	(52)	-	5
Consumer Durable Segment	7	7	6	7
E&P segment	5	(2)	-	4
Tax rate (%)	31.0	48.0	25.2	25.2
Capex (INR mn)	571	284	110	110
Dep. (% gross block)	10.1	12.7	10.8	10.8

### Income statement

(INR mn)

Year to March	FY19	FY20	FY21E	FY22E
Income from operations	66,731	49,771	49,503	56,520
Materials costs	51,576	36,420	35,939	40,864
Employee costs	3,567	3,834	3,833	3,984
Other mfg expenses	8,105	7,447	7,574	8,308
Total operating expenses	63,248	47,702	47,345	53,156
EBITDA	4,138	2,069	2,157	3,364
Depreciation	385	680	669	684
EBIT	3,753	1,389	1,489	2,680
Less: Interest Expense	1,159	1,692	1,084	1,075
Add: Other income	654.29	526.29	449.92	634.46
Profit Before Tax	3,249	224	1,002	2,239
Less: Provision for Tax	924	225	252	564
Add: Exceptional items	-	-	147	-
Reported Profit	2,325	(1)	750	1,675
Exceptional Items	-	-	147	-
Adjusted Profit	2,325	(1)	603	1,675
Shares o /s (mn)	101	114	114	114
Diluted shares o/s (mn)	101	114	114	114
Adjusted Diluted EPS	23.0	-	5.3	14.7
Adjusted Cash EPS	28.0	7.8	12.5	20.7
Dividend per share (DPS)	3.5	3.5	4.0	4.2
Dividend Payout Ratio(%)	18.2	-	60.7	28.5

### Common size metrics

Year to March	FY19	FY20	FY21E	FY22E
Operating expenses	94.8	95.8	95.6	94.0
EBITDA margins	6.2	4.2	4.4	6.0
Net Profit margins	3.5	-	1.2	3.0

### Growth ratios (%)

Year to March	FY19	FY20	FY21E	FY22E
Revenues	41.8	(25.4)	(0.5)	14.2
EBITDA	41.0	(50.0)	4.3	55.9
Adjusted Profit	34.4	(100.1)	NA	178.0
EPS	34.4	(100.0)	NA	178.0

Balance sheet		(INR mn)			
As on 31st March	FY19	FY20	FY21E	FY22E	
Share capital	205	228	228	228	
Reserves & Surplus	10,572	13,565	13,860	15,058	
Shareholders' funds	10,777	13,793	14,087	15,285	
Long term borrowings	2,126	799	799	799	
Short term borrowings	13,649	6,576	4,576	4,576	
Total Borrowings	15,775	7,375	5,375	5,375	
Long Term Liabilities	844	1,686	1,686	1,686	
Def. Tax Liability (net)	(638)	(453)	(453)	(453)	
<b>Sources of funds</b>	<b>26,758</b>	<b>22,400</b>	<b>20,695</b>	<b>21,892</b>	
Gross Block	4,492	5,991	6,091	6,191	
Net Block	3,180	4,014	3,459	2,890	
Capital work in progress	93	109	109	109	
Intangible Assets	43	29	25	19	
Total Fixed Assets	3,316	4,151	3,593	3,019	
Non current investments	507	529	529	529	
Cash and Equivalents	160	1,047	1,271	1,586	
Inventories	8,210	6,908	8,369	8,397	
Sundry Debtors	31,426	25,365	23,734	27,099	
Loans & Advances	161	419	419	419	
Other Current Assets	7,184	6,713	5,371	5,210	
Current Assets (ex cash)	46,981	39,405	37,893	41,124	
Trade payable	10,921	9,003	8,862	10,636	
Other Current Liab	13,285	13,729	13,729	13,729	
Total Current Liab	24,206	22,732	22,591	24,365	
Net Curr Assets-ex cash	22,775	16,673	15,302	16,759	
<b>Uses of funds</b>	<b>26,758</b>	<b>22,400</b>	<b>20,695</b>	<b>21,892</b>	
BVPS (INR)	106.8	121.2	123.8	134.4	

Free cash flow		(INR mn)			
Year to March	FY19	FY20	FY21E	FY22E	
Reported Profit	2,325	(1)	750	1,675	
Add: Depreciation	385	680	669	684	
Interest (Net of Tax)	800	880	811	804	
Others	(969)	229	273	271	
Less: Changes in WC	8,560	(4,486)	(1,371)	1,457	
Operating cash flow	(6,019)	6,274	3,873	1,978	
Less: Capex	571	284	110	110	
<b>Free Cash Flow</b>	<b>(6,590)</b>	<b>5,990</b>	<b>3,763</b>	<b>1,868</b>	

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		P/B (X)		ROAE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Bajaj Electricals	673	82.6	29.7	3.5	3.3	4.3	11.4
Crompton Greaves Consumer Electrical	-	34.1	26.4	9.2	7.9	29.0	32.3
Havells India	-	58.3	46.4	7.9	7.3	14.2	16.4
Median	-	58.3	29.7	7.9	7.3	14.2	16.4
AVERAGE	-	58.3	34.2	6.9	6.2	15.9	20.0

Source: Edelweiss research

Cash flow metrics		FY19	FY20	FY21E	FY22E
Year to March					
Operating cash flow		(6,019)	6,274	3,873	1,978
Financing cash flow		7,181	(4,908)	(3,539)	(1,553)
Investing cash flow		(1,269)	(462)	(110)	(110)
Net cash Flow		(106)	904	224	315
Capex		(571)	(284)	(110)	(110)
Dividend paid		(430)	(432)	(455)	(478)
Share issue/(buyback)		95	3,482	-	-

## Profitability and efficiency ratios

Year to March	FY19	FY20	FY21E	FY22E
ROAE (%)	23.0	-	4.3	11.4
ROACE (%)	20.4	8.0	9.5	16.5
Inventory Days	50	76	78	75
Debtors Days	141	208	181	164
Payable Days	69	100	91	87
Cash Conversion Cycle	122	184	168	152
Current Ratio	1.9	1.8	1.7	1.8
Gross Debt/EBITDA	3.8	3.6	2.5	1.6
Adjusted Debt/Equity	1.5	0.5	0.4	0.4
Interest Coverage Ratio	3.2	0.8	1.4	2.5

## Operating ratios

Year to March	FY19	FY20	FY21E	FY22E
Total Asset Turnover	3.1	2.0	2.3	2.7
Fixed Asset Turnover	20.4	13.3	12.8	17.1
Equity Turnover	6.6	4.1	3.6	3.8

## Valuation parameters

Year to March	FY19	FY20	FY21E	FY22E
Adj. Diluted EPS (INR)	23.0	-	5.3	14.7
Y-o-Y growth (%)	34.4	(100.0)	NA	178.0
Adjusted Cash EPS (INR)	28.0	7.8	12.5	20.7
Diluted P/E (x)	19.0	NA	82.6	29.7
P/B (x)	4.1	3.6	3.5	3.3
EV / Sales (x)	0.9	1.1	1.1	0.9
EV / EBITDA (x)	14.4	27.1	25.0	15.9
Dividend Yield (%)	0.8	0.8	0.9	1.0

## Additional Data

### Directors Data

Shekhar Bajaj	Chairman	R P Singh	Independent Non-Executive Director
V B Haribhakti	Independent Non-Executive Director	Harsh Vardhan Goenka	Independent Non-Executive Director
Ajit Gulabchand	Independent Non-Executive Director	Indu Shahani	Independent Non-Executive Director
Ashok Jalan	Independent Non-Executive Director	Anant Bajaj	Joint Managing Director
Madhur Bajaj	Madhur Bajaj	Promoter & Non-Executive Director	

Auditors - S R B C & CO LLP

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Jamnalaal sons pvt lt	19.69	Bajaj holdings and i	16.52
Hdfc asset managemen	7.86	Bajaj kiran	6.39
Capital group compan	5.45	Bajaj anant	4.86
Bajaj shekhar	2.47	Bajaj niraj ramkrish	2.33
Reliance capital tru	2.32	Bajaj rahul kumar	2.07

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amber Enterprises	HOLD	SP	M	Bajaj Electricals	HOLD	SP	M
Crompton Greaves Consumer Electrical	BUY	SO	L	Finolex Cables	BUY	SO	M
Havells India	REDUCE	SU	L	KEI Industries	BUY	SO	M
Polycab India	REDUCE	SU	H	Symphony	REDUCE	SU	M
V Guard Industries	REDUCE	SU	L	Voltas	BUY	SO	L
Whirlpool of India	REDUCE	SU	M				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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## Coverage group(s) of stocks by primary analyst(s): Consumer Durables

Amber Enterprises, Bajaj Electricals, Crompton Greaves Consumer Electrical, Finolex Cables, Havells India, KEI Industries, Polycab India, Symphony, V Guard Industries, Voltas, Whirlpool of India

### Recent Research

Date	Company	Title	Price (INR)	Recos
10-Aug-20	<b>Amber Enterprises</b>	Structural tailwinds; capital allocation, valuations key; <i>Result Update</i>	1,710	Hold
07-Aug-20	<b>KEI Industries</b>	Diverse revenues impart resilience; balance sheet focus key; <i>Result Update</i>	373	Buy
06-Aug-20	<b>Whirlpool</b>	Market edge retained; scale-up challenging; <i>Result Update</i>	2,098	Reduce

### Distribution of Ratings / Market Cap

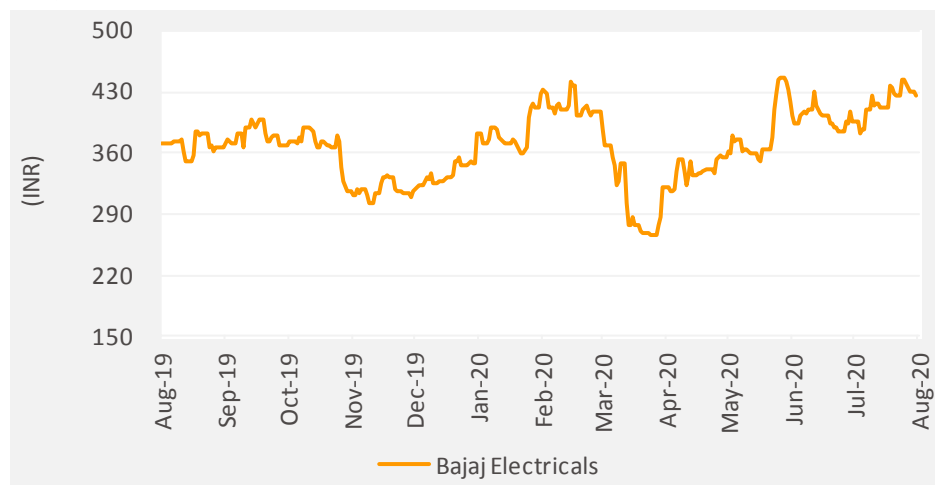
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

One year price chart



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