

ADD

TP: Rs 655 | ▲ 11%

**CONTAINER CORP OF
INDIA**

Logistics

31 October 2019

Decent operating performance in tough demand climate

Container Corp (CCRI) reported an in-line operating performance in Q2FY20. Standalone revenue was up 1% YoY as realisation gains of 3% nullified a 2% volume dip. EBITDA margin (ex. Ind-AS 116, one-off) was flat YoY at 23.5%. Absence of SEIS income (Rs 1bn in Q2FY19) dragged PBT down 20% YoY. Management has cut FY20 guidance citing the subdued demand climate, which remains a near-term growth overhang though long-term prospects look healthy. We tweak estimates and roll over to a Mar'21 TP of Rs 655 (from Rs 575).

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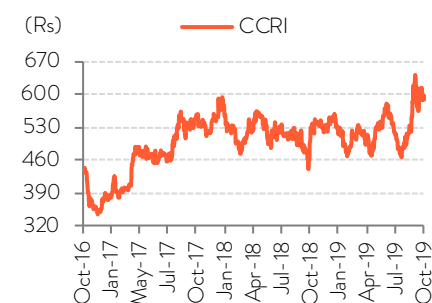
Realisations supported by higher lead distance: Realisations increased 3% YoY/1.5% QoQ due to better lead distance (795km vs. 779km/777km in Q2FY19/Q1FY20). This negated the impact of lower handling/originating volumes (-2%/-2.5% YoY) and aided a 1% YoY increase in topline. CCRI's decision not to pursue short-haul, low-margin volumes aided better leads, albeit at the expense of a ~600bps moderation in market share to 67% in H1FY20.

Ticker/Price	CCRI IN/Rs 588
Market cap	US\$ 5.1bn
Shares o/s	609mn
3M ADV	US\$ 13.4mn
52wk high/low	Rs 666/Rs 460
Promoter/FPI/DII	55%/28%/12%

Source: NSE

Deep cut in FY20 guidance: Management lowered FY20 volume growth guidance to 0-2% from 10-12% earlier, citing the challenging demand climate. We have baked in 1% YoY growth in volumes, implying a 3.5% uptick in H2FY20. We see realisation growth ebbing to ~1.5% in H2 vs. 6% in H1.

STOCK PERFORMANCE



EBITDA margin stable: Lower rail freight expense (-3.3% YoY) supported a stable 23.5% EBITDA margin, despite weak volumes and lower double-stacked trains (674 vs. 809 in Q2FY19). A one-time provision of Rs 8.7bn for pending SEIS claims hurt reported PAT (impact of ~Rs 5.7bn net of deferred taxes).

Raise TP: We trim FY21/FY22 earnings by 1.5%/1.2% and move to a revised Mar'21 TP of Rs 655 (Rs 575 earlier). Maintain ADD.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	58,910	65,098	68,691	81,668	97,951
EBITDA (Rs mn)	12,067	14,078	16,409	20,513	25,171
Adj. net profit (Rs mn)	10,619	12,154	10,648	12,825	15,692
Adj. EPS (Rs)	17.4	19.9	17.5	21.0	25.8
Adj. EPS growth (%)	12.4	14.5	(12.4)	20.4	22.4
Adj. ROAE (%)	11.7	12.3	10.2	11.9	13.4
Adj. P/E (x)	33.8	29.5	33.7	28.0	22.8
EV/EBITDA (x)	28.3	24.1	22.2	17.3	14.1

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE – STANDALONE (EXCLUDING IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Revenues	17,387	17,227	0.9	16,389	6.1	33,776	32,209	4.9
Rail freight expenses	9,397	9,714	(3.3)	8,953	5.0	18,350	18,437	(0.5)
% of sales	54.0	56.4	(234bps)	54.6	(58bps)	54.3	57.2	(291bps)
Other operating expenses	2,251	2,072	8.7	2,082	8.1	4,333	3,924	10.4
% of sales	12.9	12.0	92bps	12.7	25bps	12.8	12.2	64bps
Employee expenses	829	802	3.4	806	2.9	1,635	1,503	8.8
% of sales	4.8	4.7	12bps	4.9	(15bps)	4.8	4.7	17bps
Other expenses	824	594	38.8	666	23.8	1,491	1,098	35.7
% of sales	4.7	3.4	129bps	4.1	68bps	4.4	3.4	100bps
Total expenditure	13,302	13,181	0.9	12,507	6.4	25,808	24,962	3.4
EBITDA	4,085	4,045	1.0	3,883	5.2	7,968	7,247	9.9
EBITDA margin (%)	23.5	23.5	1bps	23.7	(20bps)	23.6	22.5	109bps
Depreciation	1,014	1,048	(3.2)	1,103	(8.1)	2,117	2,070	2.3
EBIT	3,071	2,998	2.4	2,779	10.5	5,851	5,178	13.0
Interest expenses	(32)	0	NM	112	NM	80	0	NM
Other income	637	1,689	(62.3)	583	9.3	1,219	3,009	(59.5)
PBT	3,740	4,686	(20.2)	3,250	15.1	6,990	8,186	(14.6)
PBT margin	21.5	27.2	(569bps)	19.8	168bps	20.7	25.4	(472bps)
Exceptional item	(8,702)	-	NM	-	NM	(8,702)	-	NM

Source: Company, BOBCAPS Research | Note: Assumed 34% tax rate for exceptional item adjustment in PAT; SEIS clubbed under other income; EBITDA adjusted for provision of Rs 92mn which is part of exceptional item

FIG 2 – QUARTERLY PERFORMANCE – STANDALONE (INCLUDING IND-AS 116 IMPACT)

Y/E Mar (Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Revenues	17,387	17,227	0.9	16,389	6.1	33,776	32,209	4.9
Rail freight expenses	9,397	9,714	(3.3)	8,953	5.0	18,350	18,437	(0.5)
% of sales	54.0	56.4	(234bps)	54.6	(58bps)	54.3	57.2	(291bps)
Other operating expenses	2,251	2,072	8.7	2,082	8.1	4,333	3,924	10.4
% of sales	12.9	12.0	92bps	12.7	25bps	12.8	12.2	64bps
Employee expenses	829	802	3.4	806	2.9	1,635	1,503	8.8
% of sales	4.8	4.7	12bps	4.9	(15bps)	4.8	4.7	17bps
Other expenses	563	594	(5.2)	516	9.1	1,079	1,098	(1.7)
% of sales	3.2	3.4	(21bps)	3.1	9bps	3.2	3.4	(21bps)
Total expenditure	13,040	13,181	(1.1)	12,357	5.5	25,397	24,962	1.7
EBITDA	4,347	4,045	7.4	4,033	7.8	8,379	7,247	15.6
EBITDA margin (%)	25.0	23.5	152bps	24.6	39bps	24.8	22.5	231bps
Depreciation	1,278	1,048	22.0	1,253	2.0	2,532	2,070	22.3
EBIT	3,068	2,998	2.4	2,779	10.4	5,848	5,178	12.9
Interest expenses	81	0	NM	112	(27.7)	194	0	NM
Other income	637	1,689	(62.3)	583	9.3	1,219	3,009	(59.5)
PBT	3,624	4,686	(22.7)	3,250	11.5	6,873	8,186	(16.0)
PBT margin (%)	20.8	27.2	(636bps)	19.8	101bps	20.3	25.4	(507bps)
Exceptional item	(8,702)	-	NM	-	NM	(8,702)	-	NM
Tax rate	(1,858)	1,326	(240.2)	971	(291.3)	(887)	2,302	(138.5)
Tax rate (%) – total	(51.3)	28.3	(7,957bps)	29.9	(8,117bps)	(12.9)	28.1	(4,102bps)
Reported PAT	(3,220)	3,361	(195.8)	2,278	(241.3)	(942)	5,884	(116.0)
Adjustment	5,743	-	NM	-	NM	5,743	-	NM
Adjusted PAT	2,523	3,361	(24.9)	2,278	10.7	4,801	5,884	(18.4)
Adjusted PAT margin (%)	14.5	19.5	(500bps)	13.9	61bps	14.2	18.3	(405bps)

Source: Company, BOBCAPS Research | Note: Assumed 34% tax rate for exceptional item adjustment in PAT; SEIS clubbed under other income; EBITDA adjusted for provision of Rs 92mn which is part of exceptional item

FIG 3 – PER UNIT PARAMETERS – STANDALONE (EXCLUDING IND-AS 116 IMPACT)

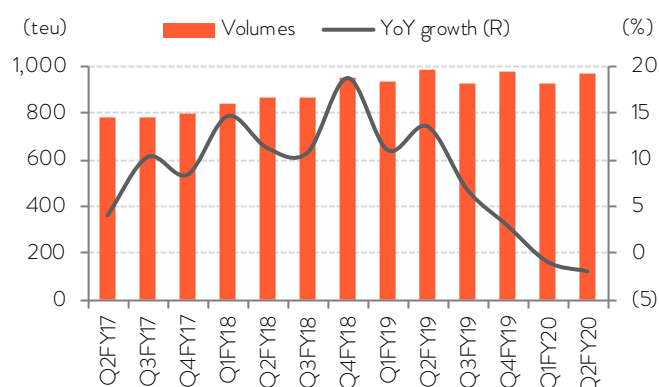
(Rs)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Total sales volume (teu)	9,69,158	9,88,727	(2.0)	9,26,923	4.6	18,96,081	19,24,383	(1.5)
Realisation/teu	17,940	17,423	3.0	17,681	1.5	17,813	16,737	6.4
Rail freight expenses/teu	9,696	9,825	(1.3)	9,659	0.4	9,678	9,581	1.0
Other operating expenses/teu	2,323	2,095	10.8	2,246	3.4	2,285	2,039	12.1
Employee expenses/teu	856	811	5.5	869	(1.6)	862	781	10.4
Other expenses/teu	851	601	41.6	719	18.4	786	571	37.7
Total expenditure/teu	13,725	13,331	3.0	13,493	1.7	13,611	12,971	4.9
EBITDA/teu	4,215	4,092	3.0	4,189	0.6	4,202	3,766	11.6
Depreciation/teu	1,046	1,060	(1.3)	1,190	(12.1)	1,117	1,076	3.8
EBIT/teu	3,169	3,032	4.5	2,999	5.7	3,086	2,690	14.7

Source: Company, BOBCAPS Research | Note: EBITDA adjusted for provision of Rs 92mn

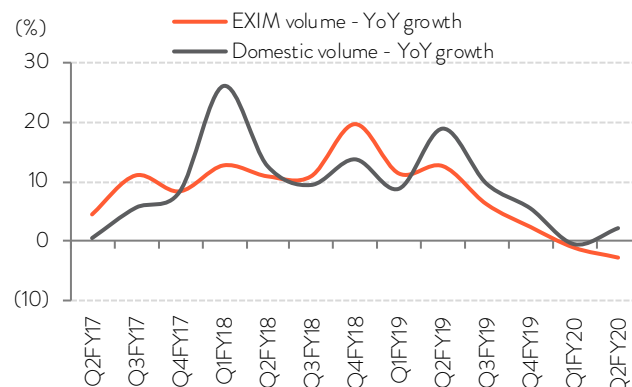
FIG 4 – SEGMENTAL DATA – STANDALONE

	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
EXIM segment								
Volume (teu)	8,26,013	8,48,585	(2.7)	7,86,442	5.0	16,12,455	16,42,990	(1.9)
Revenue (Rs mn)	13,577	13,674	(0.7)	12,704	6.9	26,281	25,301	3.9
Realisation/teu (Rs)	16,437	16,114	2.0	16,154	1.7	16,299	15,399	5.8
EBIT (Rs mn)	3,138	3,064	2.4	2,926	7.3	6,064	5,306	14.3
EBIT margin (%)	23.1	22.4	71bps	23.0	8bps	23.1	21.0	210bps
EBIT/teu (Rs)	3,799	3,611	5.2	3,720	2.1	3,761	3,229	16.5
Domestic segment								
Volume (teu)	1,43,145	1,40,142	2.1	1,40,481	1.9	2,83,626	2,81,393	0.8
Revenue (Rs mn)	3,810	3,552	7.2	3,685	3.4	7,495	6,908	8.5
Realisation/teu (Rs)	26,614	25,349	5.0	26,232	1.5	26,425	24,549	7.6
EBIT (Rs mn)	198	297	(33.4)	189	5.0	387	456	(15.3)
EBIT margin (%)	5.2	8.4	(317bps)	5.1	8bps	5.2	6.6	(145bps)
EBIT/teu (Rs)	1,383	2,122	(34.8)	1,342	3.1	1,363	1,622	(16.0)

Source: Company, BOBCAPS Research | Note: EBITDA adjusted for provision of Rs 92mn

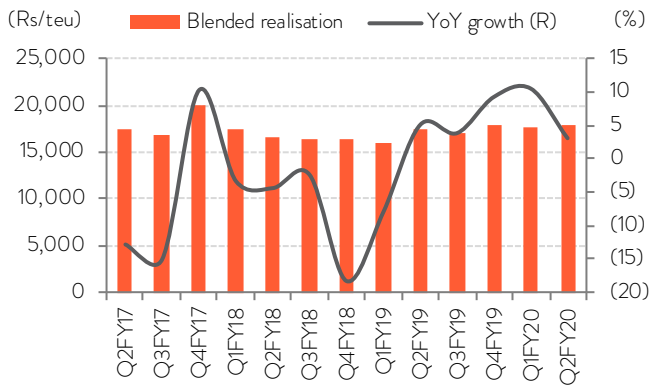
FIG 5 – HANDLING VOLUMES DECLINED 2% YOY; UP 5% SEQUENTIALLY

Source: Company, BOBCAPS Research

FIG 6 – EXIM VOLUME DECLINED 2.7%; DOMESTIC UP 2.1% YOY

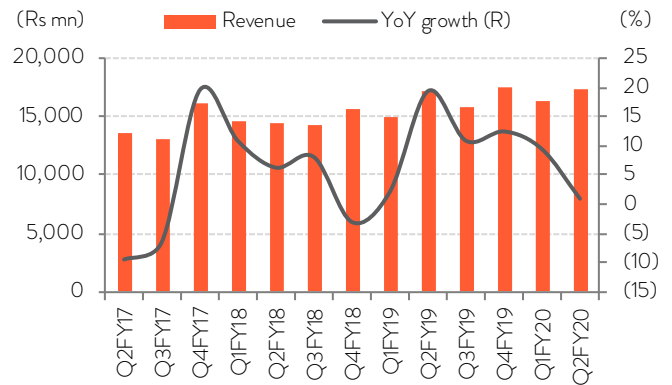
Source: Company, BOBCAPS Research

FIG 7 – REALISATION GREW BY 3% YOY...



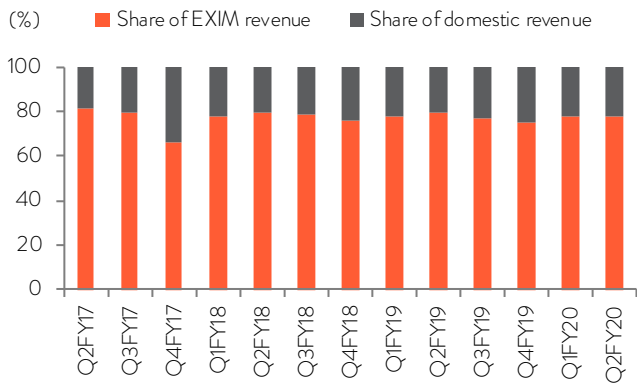
Source: Company, BOBCAPS Research

FIG 8 – ...LEADING TO 1% GROWTH IN STANDALONE REVENUE



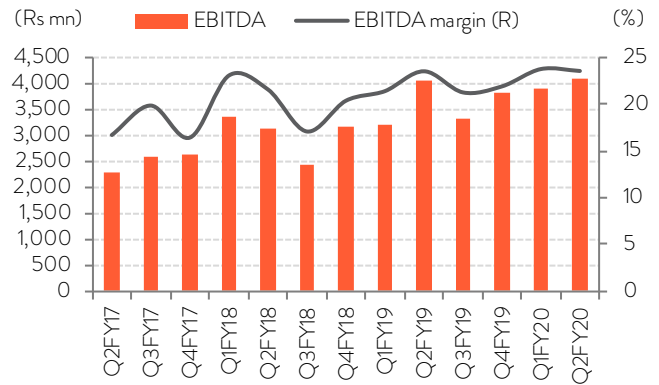
Source: Company, BOBCAPS Research

FIG 9 – SHARE OF EXIM INCREASED IN REVENUE MIX



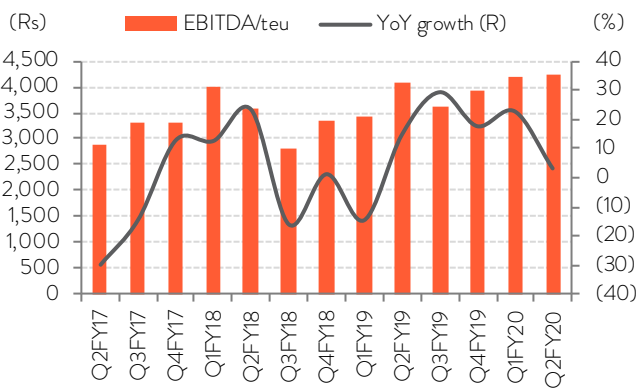
Source: Company, BOBCAPS Research

FIG 10 – EBITDA MARGIN FLAT YOY AT 23.5%



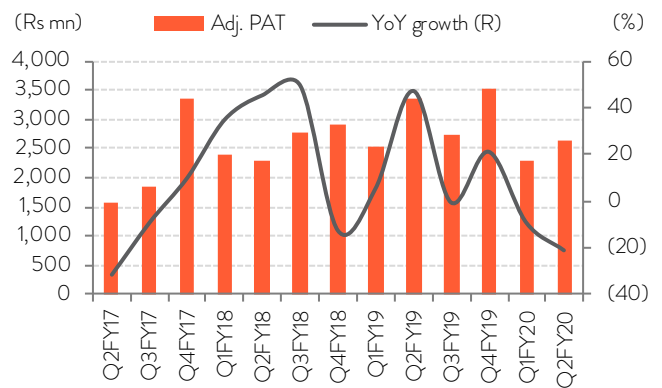
Source: Company, BOBCAPS Research

FIG 11 – EBITDA/TEU GREW IN LINE WITH REALISATION



Source: Company, BOBCAPS Research

FIG 12 – ABSENCE OF SEIS INCOME DRAGGED ADJ. PAT DOWN



Source: Company, BOBCAPS Research

Earnings call highlights

- **Volume decline continues:** Handling volumes dipped 2% YoY in Q2FY20 to 1mn teu (EXIM volumes down 3% YoY, domestic up 2%); originating volumes fell 2.5% YoY (EXIM/domestic down 2.8%/0.1%). For H1FY20, handling/originating volumes decreased 1.5%/4.1% YoY.
- **FY20 guidance lowered:** The challenging demand environment prompted CCRI's management to lower FY20 volume growth guidance to 0-2% YoY (10-12% earlier), with the topline guided to grow at 4-5%. Both domestic consumption and global trade remain muted and may take a few months to revive.
- **Market share loss:** The company continued to lose market share mainly due to its conscious decision not to pursue low-margin, short-haul business. Overall market share has declined to 67% in H1FY20 from 73% in H1FY19, with losses across key ports to ~68% in JNPT vs. ~80% in H1FY19, ~45% in Mundra vs. ~52.5%, and ~51% in Pipavav vs. ~54%.
- **Lead distance improves:** Overall lead distance climbed to ~795km in Q2FY20 from 779km in Q2FY19. EXIM lead leaped to ~774km, but domestic lead continued to dip (~1,346km vs. 1,429km in Q2FY19).
- **Lower double stacking:** Double-stacked trains came down to 674 from 809 in Q2FY19 and 758 in Q1FY20.
- **Reduction in empty running charges:** Total empty running cost declined to Rs 526mn in Q2FY20 vs. Rs 650mn in Q2FY19, due to a 25% reduction in empty running by the Indian Railways (IR) effective from Jan'19. However, empty volumes were higher due to EXIM imbalances.
- **One-time loss due to provisioning for SEIS:** As per a recent DGFT notification, CCRI will not be eligible for Rs 8.6bn of SEIS scrips, out of the total pending claims of Rs 10.4bn. While the company is in the process of appealing against the matter, it has provided for the amount. Additionally, it has also created a provision of Rs 92mn (5% of outstanding SEIS claim) to factor in a possible discount to the SEIS scrip monetisation.
- **Land licensing fee rises:** CCRI currently has 41 terminals under lease from the IR, which together handle 40-45% of total volumes. It is paying a land licence fee of Rs 1,175/teu (Rs 1,015/teu in FY19), which is linked with profitability. Handling volumes have gradually shifted to owned terminals at many locations (Vizag, Sabarmati, NCR) in recent years; management expects ~70% of volumes to be handled at owned terminals over the next five years.

- **Advance freight scheme:** As rail freight expenses have been lower than estimated (owing to lower volumes), CCRI has not paid Rs 15bn to IR on 30 Sep towards participation in the advance freight scheme, as was indicated earlier.
- **Maintain capex target:** Capex totalled Rs 1.2bn in H1FY20 but management expects to meet the target of Rs 10bn capex for FY20. Wagon procurement should start from Nov'19 onwards, which will account for a majority of the outlay. The company has opened one terminal at Pipavav in H1FY20 and plans to open seven more in H2.
- **New tax regime:** CCRI has shifted to the new corporate tax regime of 25.6% vs. ~28% in FY19. It has accordingly created tax provisioning and remeasured deferred tax assets/liabilities.

Valuation methodology

Although CCRI's Q2FY20 financial performance was in line with our estimates, we lower our FY20 revenue/EBITDA estimates by 6%/3% factoring in management's guidance cut. Our PBT/PAT estimates stand reduced by 17%/18% YoY as we strip away SEIS income (Rs 3.8bn earlier). Since we had not considered any SEIS income post FY20, our FY21/FY22 earnings estimates reduce in line with revenue, by 1.5%/1.2%.

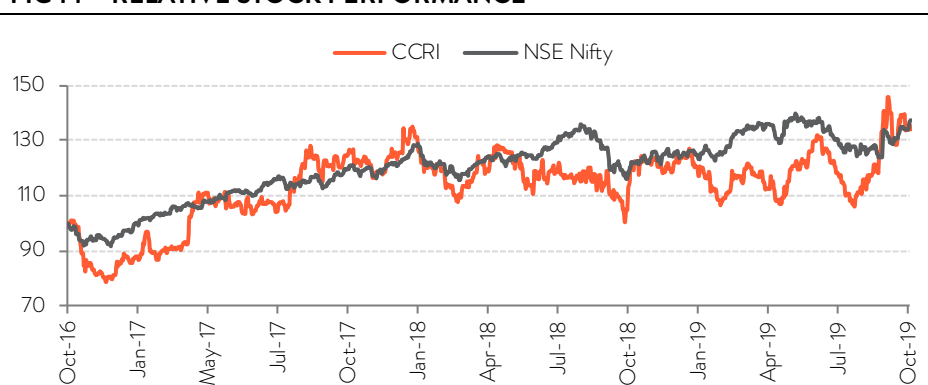
A tepid EXIM outlook and subdued domestic consumption are likely to remain near-term growth overhangs. However, we stay positive on CCRI's long-term prospects as it remains best placed to capitalise on DFC-related benefits due to its strong market positioning and superior asset portfolio. We roll over to a Mar'21 target price of Rs 655 from Rs 575 earlier, set at an unchanged target P/E multiple of 25x on FY22E EPS. Maintain ADD.

FIG 13 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	72,872	68,691	(5.7)	84,723	81,668	(3.6)	99,721	97,951	(1.8)
EBITDA	16,852	16,409	(2.6)	20,669	20,513	(0.8)	25,314	25,171	(0.6)
EBITDA margin (%)	23.1	23.9	76bps	24.4	25.1	72bps	25.4	25.7	31bps
PAT	12,953	10,648	(17.8)	13,019	12,825	(1.5)	15,883	15,692	(1.2)
PAT margin (%)	17.8	15.5	(227bps)	15.4	15.7	34bps	15.9	16.0	9bps

Source: Company, BOBCAPS Research

FIG 14 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- delay in commencement of the dedicated freight corridor,
- prolonged slowdown in global trade and/or domestic consumption, and
- sharp increase in haulage charges by Indian Railways in the DFC.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	58,910	65,098	68,691	81,668	97,951
EBITDA	12,067	14,078	16,409	20,513	25,171
Depreciation	3,927	4,246	4,416	5,139	5,919
EBIT	8,141	9,833	11,993	15,373	19,252
Net interest income/(expenses)	(1)	(7)	(115)	0	0
Other income/(expenses)	5,787	7,064	2,438	1,869	1,846
Exceptional items	0	0	0	0	0
EBT	13,926	16,889	14,316	17,242	21,097
Income taxes	(3,307)	(4,735)	(709)	(4,417)	(5,405)
Extraordinary items	(129)	0	(8,702)	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	10,490	12,154	4,905	12,825	15,692
Adjustments	129	0	5,743	0	0
Adjusted net profit	10,619	12,154	10,648	12,825	15,692

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,542	3,504	3,563	4,185	5,006
Other current liabilities	8,010	9,241	9,410	11,187	13,418
Provisions	704	719	757	900	1,079
Debt funds	334	7,310	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	2,437	3,047	3,047	3,047	3,047
Reserves & surplus	91,300	1,00,632	1,01,278	1,08,973	1,18,389
Shareholders' fund	93,737	1,03,679	1,04,324	1,12,020	1,21,435
Total liabilities and equities	1,05,327	1,24,453	1,18,054	1,28,292	1,40,938
Cash and cash eq.	19,817	1,704	3,767	3,491	5,473
Accounts receivables	604	884	932	1,109	1,330
Inventories	274	233	245	292	350
Other current assets	11,418	44,491	29,471	29,606	29,774
Investments	13,890	14,029	14,029	14,029	14,029
Net fixed assets	36,384	41,879	53,710	60,571	66,652
CWIP	6,710	6,247	0	0	0
Intangible assets	100	68	68	68	68
Deferred tax assets, net	(1,732)	(1,616)	(1,616)	(1,616)	(1,616)
Other assets	17,861	16,534	17,447	20,743	24,879
Total assets	1,05,327	1,24,453	1,18,054	1,28,292	1,40,938

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	14,546	16,400	15,064	17,964	21,612
Interest expenses	1	7	115	0	0
Non-cash adjustments	(549)	(117)	0	0	0
Changes in working capital	2,645	(29,775)	14,310	(1,110)	(1,353)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	16,643	(13,485)	29,490	16,855	20,259
Capital expenditures	(8,352)	(9,245)	(10,000)	(12,000)	(12,000)
Change in investments	(153)	(139)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(8,505)	(9,384)	(10,000)	(12,000)	(12,000)
Equities issued/Others	488	609	0	0	0
Debt raised/repaid	(39)	6,976	(7,310)	0	0
Interest expenses	(1)	(7)	(115)	0	0
Dividends paid	(4,992)	(6,280)	(4,259)	(5,130)	(6,277)
Other financing cash flows	(611)	3,458	(5,743)	0	0
Cash flow from financing	(5,156)	4,756	(17,427)	(5,130)	(6,277)
Changes in cash and cash eq.	2,982	(18,113)	2,062	(275)	1,982
Closing cash and cash eq.	19,817	1,704	3,767	3,491	5,473

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	17.2	19.9	8.1	21.0	25.8
Adjusted EPS	17.4	19.9	17.5	21.0	25.8
Dividend per share	8.2	10.3	7.0	8.4	10.3
Book value per share	153.8	170.2	171.2	183.8	199.3

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	5.8	5.2	5.3	4.3	3.6
EV/EBITDA	28.3	24.1	22.2	17.3	14.1
Adjusted P/E	33.8	29.5	33.7	28.0	22.8
P/BV	3.8	3.5	3.4	3.2	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	76.3	72.0	74.4	74.4	74.4
Interest burden (PBT/EBIT)	171.1	171.8	119.4	112.2	109.6
EBIT margin (EBIT/Revenue)	13.8	15.1	17.5	18.8	19.7
Asset turnover (Revenue/Avg TA)	62.8	62.2	62.5	74.0	82.3
Leverage (Avg TA/Avg Equity)	1.0	1.1	1.1	1.0	1.0
Adjusted ROAE	11.7	12.3	10.2	11.9	13.4

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	9.6	10.5	5.5	18.9	19.9
EBITDA	19.0	16.7	16.6	25.0	22.7
Adjusted EPS	12.4	14.5	(12.4)	20.4	22.4
Profitability & Return ratios (%)					
EBITDA margin	20.5	21.6	23.9	25.1	25.7
EBIT margin	13.8	15.1	17.5	18.8	19.7
Adjusted profit margin	18.0	18.7	15.5	15.7	16.0
Adjusted ROAE	11.7	12.3	10.2	11.9	13.4
ROCE	8.7	9.4	11.0	14.0	16.3
Working capital days (days)					
Receivables	4	5	5	5	5
Inventory	2	1	1	1	1
Payables	16	20	19	19	19
Ratios (x)					
Gross asset turnover	1.3	1.3	1.1	1.0	1.1
Current ratio	3.0	3.7	2.6	2.2	2.0
Net interest coverage ratio	NM	NM	NM	NM	NM
Adjusted debt/equity	(0.2)	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: CONTAINER CORP OF INDIA (CCRI IN)



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

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