

India Consumer & Retail

Off the Shelf

Key developments in Indian consumer space over the past month:

- New product launches and developments.** 1) In line with its strategy to build presence in the fast growing personal care and foods segments, **HUL** launched three key new products over the past month - *Vaseline for Men* (male skin care range), *Knorr Soupy Noodles* and *Dove Anti-Dandruff* shampoo; 2) In another round of price hikes, **ITC** has raised prices for *Gold Flake Premium* and *Wills Flake Premium* cigarettes by 20-25%. Combined with earlier price hikes taken post budget announcement, now the weighted average cigarette price hike by ITC is close to 15%, 3) **P&G** now eyes a bigger share in shampoo segment, offering 20% higher volumes for sachets; 4) **Marico** has cut prices of its *Shanti Badam Amla* hair oil by 25% in order to boost volumes and gain share in this segment which is dominated by **Dabur** (running consumer promotions of 12-15% for Amla hair oil); and 5) **Pantaloon Retail** introduced *Sach* toothpaste (priced at 10-15% discount to leading brands) to extend its private label offering in the toothpaste segment.
- JPM Global Research. Procter & Gamble:** Our U.S. team highlights that company is being more strategic with pricing to attract more consumers. It is not only cutting prices, but also restaging existing products and/or introducing lower tier products in existing categories in order to enhance its reach, particularly as it relates to lower-income consumers both in emerging and developed markets. Besides India, P&G has launched lower-priced products in Europe (diapers), China (fem care) and LatAm (oral care).
- Key commodity trends. Palm oil** prices were marginally down (-1% m/m) and domestic **soy bean** prices declined 4% m/m. Downward trend for domestic **sugar** prices continued as they fell 10% m/m and **wheat** prices declined sharply by 13% m/m amidst expectations of a higher production this season. **Cotton** prices continued the uptrend rising 6% m/m.
- Performance and Valuation.** Over the past month, BSE FMCG Index was up 3%, underperforming the Sensex by 3%. ITC and GCPL were the better performers, up 10% and 9% respectively.

India

Cosmetics & Personal Care, Food & Food Manufacture

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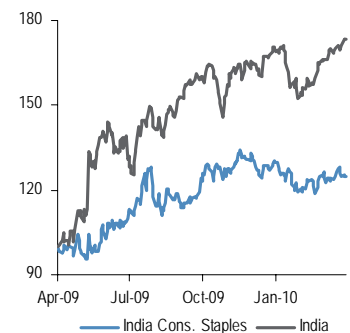
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Relative performance of Indian consumer sector (MSCI)



Source: Bloomberg

Table 1: India Consumer Valuations

	Price	Mcap US\$Mn	P/E (x)		P/B (x)		EV/EBITDA (x)		Dividend Yield FY10E
			FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	
HUL	225	10,605	23.0	21.8	20.0	17.5	16.2	14.7	3.3%
ITC	269	22,133	25.2	21.9	6.3	5.3	15.4	13.1	1.5%
Colgate	711	2,092	26.3	24.6	31.9	25.2	21.8	18.5	2.5%
GCPL	281	1,883	26.5	22.4	12.1	9.8	24.5	21.0	1.8%
Dabur	167	3,125	29.5	24.5	13.2	10.1	23.4	19.1	1.2%
Nestle	2,751	5,741	37.3	30.8	49.5	43.4	24.5	20.3	2.1%
United Spirits	1,335	3,531	44.2	27.8	3.1	2.8	17.2	14.4	0.2%
Titan Industries	1,880	1,807	36.8	30.1	12.0	9.8	23.5	19.2	0.8%
Pantaloon Retail	414	1,892	43.6	31.2	2.6	2.5	12.7	10.7	0.3%

Source: Bloomberg, Company reports and J.P. Morgan estimates. Price as of Apr 7, 2010

See page 15 for analyst certification and important disclosures, including non-US analyst disclosures.

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Domestic Market – What’s changing?

HUL extends *Vaseline* to men’s skin care segment; forays into noodles market; introduces *Dove* anti-dandruff shampoo

In line with its strategy to build presence in the fast growing personal care and foods segments, HUL launched two key products over past month. First, it extended its Vaseline skin care brand to Men’s grooming segment with the introduction of ‘*Vaseline for Men*’ skin care range including fairness creams, face wash, body lotions and body washes. HUL has roped in actor Shahid Kapoor to endorse the anti-spot whitening face cream under this brand.

FMCG companies have been increasingly focusing on catering to men’s grooming products. Men’s fairness segment is currently estimated to be around Rs4.1bn and is growing ahead of overall skin care market in India. Emami entered the men’s fairness cream segment in 2005 with the launch of ‘*Fair & Handsome*’ which still dominates the space with 63% share. Hindustan Unilever in 2007 launched ‘*Menz Active*’ in this sub-category, but the product has not been able to garner much share. Over the past year or so multinationals such as Beiersdorf (*Nivea for Men*) and L’Oreal (*Garnier PowerLight*) have launched a slew of products for men’s skin care range.

Table 2: Key brands for Men’s skin care range

Company	Brand	Quantity	Price (Rs)
Nivea for Men	Whitening	40ml	229
	Advanced Whitening	15ml	99
L’Oreal	Garnier Fairness Moisturiser	50gm	150
	Garnier Face Wash	100gm	125
HUL	Vaseline for Men	30gm	70
		50gm	120

Source: Industry, J.P. Morgan

Another important step by HUL has been its foray into the instant noodles segment with the launch of *Knorr Soupy* Noodles. The product will be launched in a phased manner nationally with the initial launch in southern states of Karnataka, Tamil Nadu, Andhra Pradesh and Kerala. It will compete against Nestle’s *Maggi* brand which is the market leader in instant noodles segment with c80% share. This launch follows GSK Consumer’s foray into noodles segment recently under the *Horlicks Foodles* brand. *Knorr* Noodles are available at an introductory price of Rs10 (MRP is Rs15) compared to *Maggi* noodles at Rs10 for 90gm pack.

HUL also extended its fastest growing shampoo brand *Dove* to the antidandruff segment with a new variant introduced at 8% premium to the regular *Dove* variant (Refer Table 3). This will compete with P&G’s *Head & Shoulders* brand which dominates the anti-dandruff shampoo segment. Market share performance of HUL in dandruff control shampoo segment has been weak in recent quarters (under brand *Clinic All Clear*) and this new introduction by HUL will likely help reverse this trend.

Table 3: Retail prices for key shampoo brands (bottles)

Brand	Quantity	Price (Rs)
HUL		
Clinic Plus	100ml	46
Clinic All Clear	200ml	134
Sunsilk	100ml	54
Dove	100ml	64
Dove Anti-Dandruff	100ml	69
P&G		
Pantene	90ml	59
Head & Shoulders	200ml	139
Vatika	100ml	54
L'Oreal		
Garnier	200ml	109
L'OReal	200ml	130
Dabur		
Total Protect	100ml	44
Vatika	100ml	54
Vatika Dandruff Control	100ml	65

Source: J.P.Morgan

P&G raises shampoo sachet volumes by 20%

After detergents, it appears P&G is getting aggressive in the shampoo space. Our retail trade channel checks indicate that Procter & Gamble is now offering 20% higher volume (grammage) for *Pantene* and *Head & Shoulders* sachets. Sachets form nearly 60-70% of shampoo sales for FMCG players in India and this move by P&G implies higher competition and could probably lead to a similar response from market leader Hindustan Unilever. With recent grammage increase, *Pantene* sachets are now priced at c5% discount to HUL's Dove and Clinic All Clear (refer to price table below).

HUL holds 46% share in the shampoo segment followed by P&G at 24%, Cavinkare at 11%, Dabur at 7% and ITC at 2%.

Table 4: Shampoo sachet price comparison

	Quantity (ml)	Price (Rs)	Price/ml (Rs)
Dabur			
Vatika	7	2	0.29
Vatika Dandruff Control	5	1.5	0.30
HUL			
Clear Anti-Dandruff	8	3	0.38
Dove	8	3	0.38
P&G			
Head & Shoulders	8.4	3	0.36
Pantene	8.4	3	0.36
ITC			
Fama Di Wills	9	3	0.33

Source: Industry, J.P.Morgan

More cigarette price hikes by ITC

In the second round of price hikes, ITC has raised prices for *Gold Flake Premium* and *Wills Flake Premium* by 20-25% which implies weighted average price increase of 4-5% for overall cigarette portfolio. Combined with earlier price hikes taken post budget announcement, now the weighted average price hike by ITC is close to 15-16%.

Table 5: Price hikes undertaken by ITC since Mar'10

	Old Price (Rs)	New Price (Rs)	Price change (%)
Classic	98	100	2.0%
Gold Flake Kings*	47	48	2.1%
Wills Navy Cut Kings	40	45	12.5%
Wills Navy Cut	34	40	17.6%
Gold Flake	30	35	16.7%
Bristol	23	25	8.7%
Scissors	20	25	25.0%
Gold Flake Premium	29	35	20.7%
Wills Flake Premium	20	25	25.0%

Source: J.P.Morgan, Company. *- Gold Flake Kings prices were raised from Rs44 to Rs47 in Feb'10

Marico slashes prices for Amla hair oil by 25%

Marico has cut prices of its Shanti Badam Amla hair oil by 25% in order to boost volumes and gain share in this segment where it is a marginal player. While Marico dominates the coconut hair oil segment, it has marginal share in Amla hair oil segment, which is dominated by Dabur. In amla hair oil category, Dabur is estimated to have 70% share while Marico has 7% share. For Marico, Shanti Amla Oil contributes less than 2% of overall revenues and EBIT, hence the impact for the same is likely to be marginal.

Post this price reduction, Marico's brand is at 38% discount to Dabur Amla hair oil compared to 15% discount earlier. Dabur is currently offering consumer promotions on 200ml and 500ml SKUs of Dabur Amla hair oil in range of 12-15%.

Table 6: Price change for Amla hair oils

	Old Price (Rs)	New Price (Rs)	Promotion (Rs)	Effective discount
Dabur Amla	100ml	32	32	0%
	200ml	62	62	-12%
	500ml	130	130	-15%
Shanti Amla	100ml	27	20	-25%

Source: Industry, J.P.Morgan

Pantaloen Retail expands its private label offering with launch of Sach toothpastes

Pantaloen Retail introduced *Sach* toothpaste to extend its private label offering in toothpaste segment, priced at 10-15% discount to leading brands in the segment. The mega consumer offering through the Sach 'master blaster pack' will include 200gm + 100 gm white paste and a free Sach Toothbrush for Rs74. With Sachin Tendulkar as brand ambassador, *Sach* brand is available in family and gel sub-segment. In our report dated Oct 14, 2009 "[Private Label – Finding its feet...?](#)", we have discussed the emerging trends in private label space which is gaining more shelf space in modern retail stores.

JPM Global Research

Procter & Gamble is being more strategic with pricing

Key highlights from the [report](#) by JPM US consumer analyst **John Faucher** relevant to P&G's emerging market business and particularly India:

Touching more consumers is not just marketing jargon. On every conference call, CEO Bob McDonald frequently talks about “touching more consumers.” While investors may be unmoved, what’s become clear is that for PG this is not just a catchphrase. As global category growth slows, as PG highlighted at CAGNY, PG needs to broaden its product portfolio to reach lower-income consumers. Procter’s management has been very vocal about their desire to gain an additional one billion consumers over the next five years by expanding their portfolio of products vertically, horizontally, and geographically. While at first glance this sounded a bit opaque, we think the company has not gotten credit for the fact that they are really executing on a strategic vision, rather than making short-term fixes to price gaps. Although the Street appears to be viewing Procter’s price reductions as short-term tactical moves to regain lost market share, we think this is all part of Procter’s far-reaching global strategy to reach more consumers. We point out that the company is not only cutting prices, but also restaging existing products and/or introducing lower-tier products in existing categories in order to enhance its reach, particularly as it relates to lower-income consumers.

It is not only about lowering prices, but about having the right portfolio in place to attract more consumers; overall, we think the company is being more strategic with pricing. While Procter has largely been focused on trading consumers up over the past years, we think the company now realizes that in many emerging and developed markets, unlike the U.S., they lack a compelling entry offering, something they are trying to fix. Some recent examples of this include Procter’s launch of Tide Naturals, a new Mach3 system, and a lower-tier Olay skin cream in India, Naturella in China, Pampers Sleep ‘n Play in the Middle East, Always Simply Fits in Western Europe, and Pampers Simply Dry in Germany, France, Greece, the UK, and Spain. In some instances, instead of launching a brand new product, the company has restaged its existing product offering. For example, last year in Indonesia, Procter significantly lowered prices on Rejoice, its mid-tier offering, in an effort to restage it and more clearly separate it from its higher-end brand, Pantene.

Table 1: Recent Examples of Procter’s Lower-Tier Launches Across the World

Reporting Segment	Brand	Country/Region
Fabric Care and Home Care	Tide Naturals	India
Grooming	Gillette Mach3	India
Beauty	Olay	India
Health Care	Naturella	China
Health Care	Always Simply Fits	Western Europe
Baby Care and Family Care	Pampers Sleep ‘n Play	Middle East
Baby Care and Family Care	Pampers Simply Dry	Germany, France, Greece, the UK, and Spain

Source: Company reports and J.P. Morgan estimates.

Agri and other key commodity price behavior

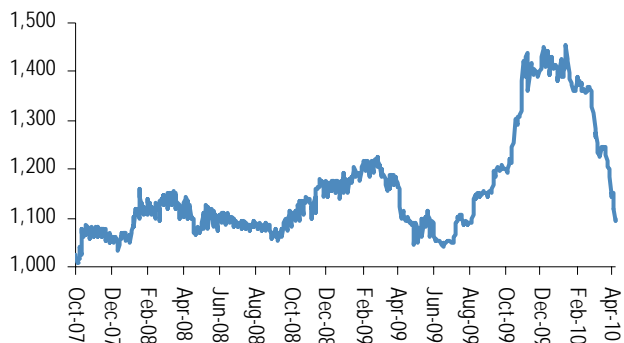
Table 3: Price change for key agri and other commodities

Commodity	Unit	Current Price	1 mnth	3 mnth	6 mnth	12 mnth
Palm Oil	M\$/tonne	2,580	-0.8%	-0.4%	18.6%	21.9%
Soy bean	Rs/quintal	2,017	-3.8%	-12.0%	0.4%	-17.9%
Wheat	Rs/quintal	1,098	-13.7%	-20.8%	-8.5%	-2.2%
Sugar	Rs/quintal	3,058	-9.9%	-28.2%	5.6%	29.3%
Cotton	Rs/candy	29,496	6.4%	7.1%	28.4%	29.5%
Crude Oil	US\$/barrel	86	4.8%	3.7%	19.7%	73.8%
Gold	US\$/oz	1,125	-0.8%	0.2%	12.0%	24.6%

Source: NCDEX, Bloomberg and Datastream, Note: 1 candy = 356Kg, 1 quintal = 100Kg. Price as of Apr 7, 2010

Figure 2: Wheat price trends

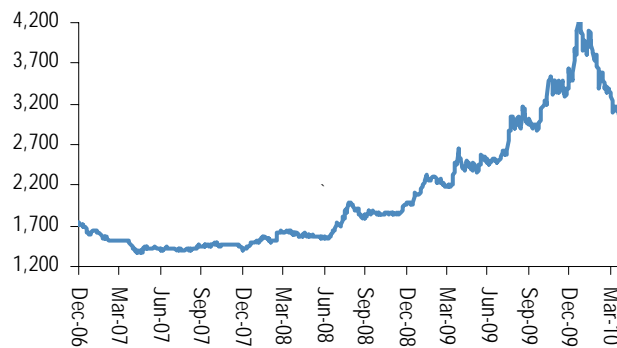
Rs/quintal



Source: NCDEX

Figure 3: Sugar price trends

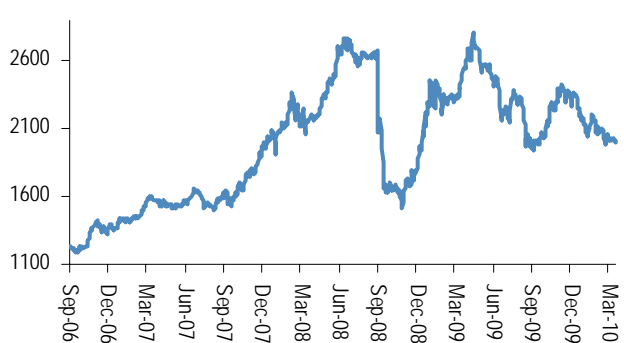
Rs/quintal



Source: NCDEX

Figure 4: Soy bean price trends

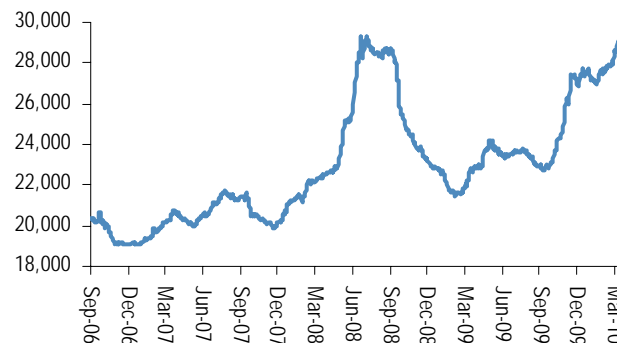
Rs/quintal



Source: NCDEX

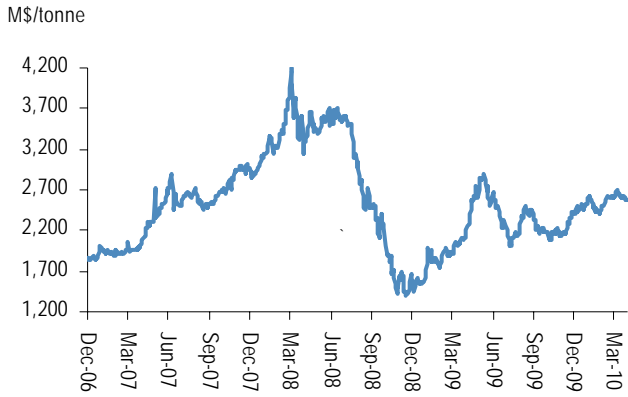
Figure 5: Cotton price trends

Rs/candy



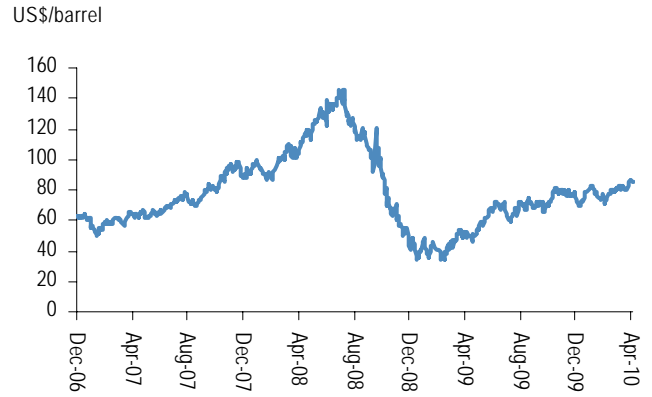
Source: NCDEX

Figure 6: Palm Oil price trends



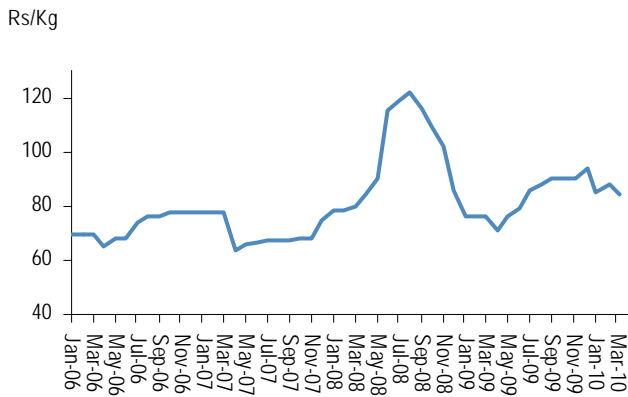
Source: Bloomberg

Figure 7: Crude Oil price trends



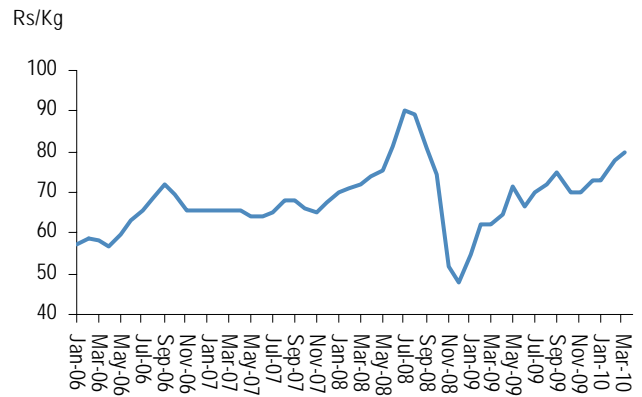
Source: Bloomberg

Figure 8: LAB prices



Source: Reliance

Figure 9: HDPE prices



Source: Reliance

Key News Highlights

Consumer Staples

Godrej Consumer Products buys Indonesia's Megasari Group

After Africa, Godrej Consumer is now eyeing the Indonesian market. It announced its decision to acquire Megasari Group, a leading household care company in Indonesia. With revenues of US\$120MM in 2009 (+20% y/y), Megasari holds dominant market shares in household insecticides (35%), air care (45%), wipes (80%), and breakfast cereals (15%) segments. The three leading brands (Hit insecticide, Stella air care and Mitu baby wipes) contribute 71.8% to total sales. With this acquisition GCPL will now be the No.2 household insecticide company in Asia (ex-Japan) region.

This acquisition fits well with GCPL's strategy of pursuing a global emerging market footprint. Earlier last month, company announced its acquisition of Tura, a leading personal care company with wide presence in soaps and skin care segment in Nigeria. These acquisitions provide GCPL a strong platform to launch its portfolio of hair care and personal care products into African and Indonesian markets.

Dairy giant Amul set for \$2-billion mark this year (ET, April 2010)

Dairy giant Amul is inching towards becoming a US\$2bn brand. The Gujarat Cooperative Milk Marketing Federation Limited (GCMMF) that markets Amul brand of dairy products reported a sales turnover of Rs 80bn for the fiscal 2009-10. Expanding market and upward price revision helped the cooperative dairy giant achieve the feat. It has now set the target of crossing the envious sales turnover mark of Rs100bn for the current fiscal. Growing market for dairy products and inflation enabled GCMMF to grow at 19% during 2009-10.

Ruchi Soya to sell protein drinks, snacks under Nutrela brand (ET, April 2010)

Ruchi Soya Industries will sell protein drinks and snacks under its edible oil brand, Nutrela, to cash in on the popularity of its main brand and growing opportunities in the health and wellness food market in India, says a top company executive. Ruchi will start selling protein drinks with mango, lemon and orange flavours and snacks under the Nutrela brand in a few quarters, said business head, consumer brand division.

Cavin Kare eyes Rs 10bn turnover this fiscal (DNA, Mar 2010)

Consumer goods maker Cavin Kare said it is targeting Rs 10bn in total turnover this fiscal as against Rs7bn in 2008-09, Cavin Kare Ltd CMD C K Ranganathan told. For the last four years the company has been maintaining a growth rate of 35-40% y/y, he added. On the company's expansion plans Ranganathan said, a Rs700mn state-of-the-art snacks manufacturing unit would come up in Thane in Maharashtra at an 8-acre land, which would commence production by September. Cavin Kare is also taking steps to enhance the export volume with special focus in Australia, Mid Europe and African countries.

Emami to hike product prices by up to 7% (DNA, Mar 2010)

Emami said it will increase the prices of its products across all segments by up to 7% because of the surge in input cost due to hike in excise duty in the Budget. "There is an increase in the input cost due to hike in excise duty and also because of the

transportation cost, we are looking to increase the prices of our products," Emami Group of companies Director Aditya Agarwal told PTI. He said, although the company is yet to take a final decision on the matter of price hike but it could be in the range of 3-7% across all segments.

Capital Foods, Pantaloon to float SPV for Rs3bn mega food-parks project
(DNA, Mar 2010)

Capital Foods and Kishore Biyani-led Pantaloon Retail, plan to float a Special Purpose Vehicle (SPV) that would invest Rs3bn in setting up two mega food-parks in Maharashtra and Karnataka. The SPV will be floated after obtaining regulatory approvals, Capital Foods' Chairman and Managing Director, Ajay Gupta, told media. The parks are being set up under the Mega Food Park Scheme of the Government that aims to encourage Public-Private Partnership (PPP) in creating rural infrastructure in the food processing sector.

Danone plans health drinks' JV (ET, Mar 2010)

Groupe Danone is close to formalising a joint venture with the Mumbai-based Narang Hospitality Services for manufacturing, marketing and distributing nutritional beverages such as fortified water and juices in India.

Danone India, a wholly owned subsidiary of the French food group, will hold a minority stake in the joint-venture company, Quarisma Beverages, which will be controlled by Narang group. Details of the stakeholding pattern were not available. The venture is to be announced in about two weeks' time. Groupe Danone declined to comment on the development. Danone India already has a tie-up with Narang Hospitality for importing and distributing its premium packaged water brand Evian in India.

ITC bites into cigar biz, ties up with La Aurora (ET, Mar 2010)

ITC has teamed up with La Aurora, one of the oldest cigar makers run by the Leon Jimenes family of Santiago in the Dominican Republic, to unveil a mint-fresh line of premium handrolled cigars, a person close to the matter said. The cigars will be rolled out under the Armenteros brand and be manufactured at La Aurora unit in the Caribbean. An ITC spokesperson confirmed the development, but did not share details. The development makes ITC the first Indian company to enter the Rs300mn fledgling cigar business in the country. The Armenteros brand of cigars will jostle with imported varieties including Romeo Y Juliata, Monte Christo, Partagas, Cohiba and Davidoff.

Retail

Indian government comes out with norms to curb wholesale trade in garb of retail (*ET, Apr 2010*)

The industry ministry has for the first time come out with guidelines for wholesale trade, also known as cash and carry, to ensure that foreign retailers cannot make a backdoor entry into out-of-bound multi-brand retail. A circular clarifying the new rules was issued by the government, stating the type of sales that will be considered wholesale trading. The norms state that the activity will require approval from an appropriate authority, central or state or local, and can be conducted only with entities that have VAT, service tax or excise duty registration. Wholesale trade will also be allowed with entities holding trade and retail licences or permits and institutions having certificate of incorporation or registration as a society or public trust buying for own consumption. Cash-and-carry companies will have to maintain daily sales records, with the registration or licence details of buyers.

India to be among Domino's top 5 markets in 3 years (*FnB, Mar 2010*)

Domino's Pizza, which has 65% market share in the home delivery segment, stated that its operations in India would figure among the top five global markets for the company within the next three years. "India at present is one of the fastest growing markets for us and ranks among the top 10 in our global list. Within the next three years, India will be among our top five markets," said J Patrick Doyle, president and CEO, Domino's Pizza. He said the company would cross the 500 outlet-mark in three years. In India, the Domino's brand is operated by Bhartia Group-promoted Jubilant Foodworks under a master franchise agreement. Talking about the growth of the chain, Ajay Kaul, CEO, Jubilant Foodworks, said Domino's India operations were the fastest. It was growing at a compound annual growth rate (CAGR) of 42% for the last five years.

Big Bazaar chain to get bigger in eastern region (*ET, Mar 2010*)

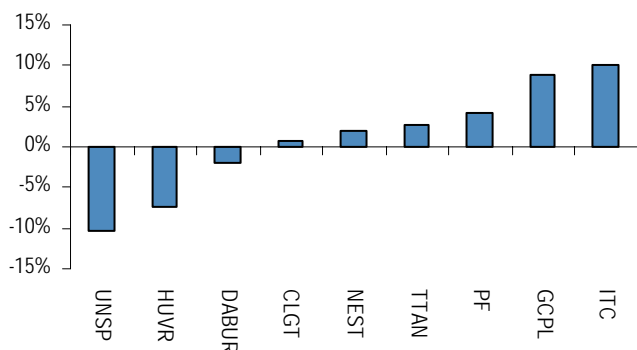
Future Group has decided to invest more than Rs 1.25bn over the next six months to expand the Big Bazaar chain of hypermarts in the East. The group intends to nearly double the number of Big Bazaar outlets from 22, at present, to 40 by October in the region.

Amway to open around 170 outlets in India within 5 yrs (*DNA, Mar 2010*)

US-based FMCG firm Amway has plans to open around 170 outlets across the country in next five years, a top company official said. "We plan to take the number of outlets in India to 300 in next five years against 130 at present," Managing Director, Amway, William S Pinckney said. The company's India turnover during 2009 stood at Rs 14bn. Clocking a double digit growth in the past few years, the company has set a turnover target of Rs25bn for 2012.

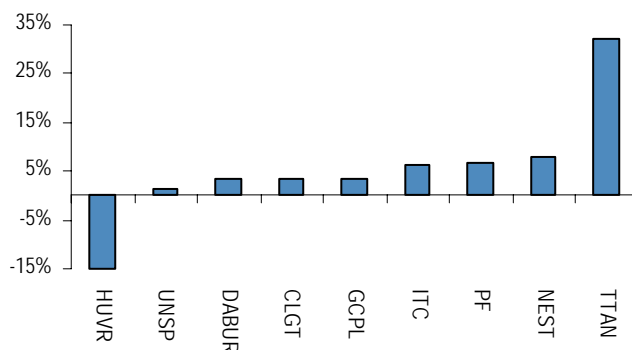
Price performance of consumer stocks

Figure 10: Stock Price vs Month Ago



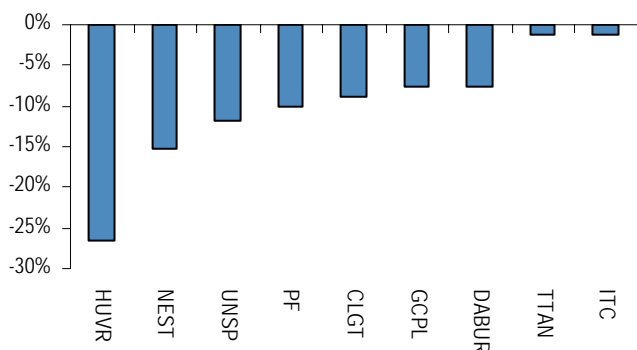
Source: Bloomberg

Figure 11: Stock Price Year-to-Date



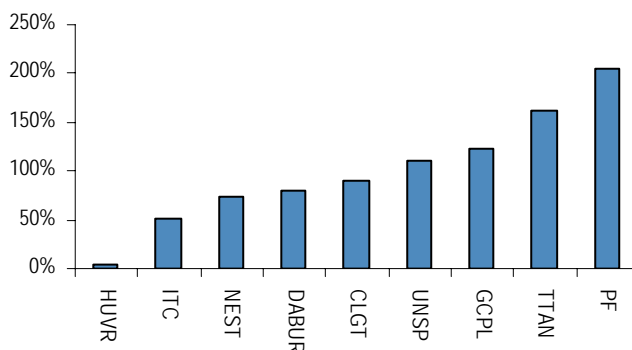
Source: Bloomberg

Figure 12: Stock Price vs 52-Week High



Source: Bloomberg

Figure 13: Stock Price vs 52-Week Low



Source: Bloomberg

Table 4: Stock price performance

	Last Price	52 WH	52 WL	Absolute Percentage Change				Relative Percentage Change			
				5 day	1 Mth	6 Mth	12 Mth	5 day	1 Mth	6 Mth	12 Mth
HUL	225	307	215	-6%	-6%	-22%	-7%	-8%	-11%	-28%	-74%
ITC	269	273	178	0%	7%	7%	42%	-2%	2%	1%	-25%
Colgate	711	779	374	4%	0%	4%	59%	2%	-5%	-2%	-8%
Godrej Consumer	281	304	126	9%	7%	6%	118%	7%	2%	0%	51%
Dabur	167	180	93	4%	-3%	20%	78%	2%	-8%	13%	11%
Nestle India	2751	3244	1577	1%	1%	9%	69%	-1%	-4%	3%	2%
United Spirits	1335	1514	636	-1%	-10%	47%	95%	-3%	-15%	40%	28%
Pantaloon	414	461	136	7%	5%	25%	141%	5%	0%	18%	73%
Titan Industries	1880	1905	718	2%	4%	36%	108%	0%	-1%	30%	41%

Source: Bloomberg. Price as of 7 Apr 2010

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29 March 2010

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[Hindustan Unilever Limited: Unabated competitive pressures](#)
16 March 2010

[Company Visit Note: Mcleod Russel : All eyes on the new season starting Apr'10](#)
10 March 2010

[India Consumer & Retail: Off the Shelf](#)
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Colgate-Palmolive (India) Limited (COLG.BO/Rs710.55/Neutral), Dabur India Limited (DABU.BO/Rs166.65/Neutral), Godrej Consumer Products Limited (GOCP.BO/Rs280.75/Neutral), Hindustan Unilever Limited (HLL.BO/Rs225.00/Underweight), ITC Limited (ITC.BO/Rs269.45/Neutral), Nestlé India Limited (NEST.BO/Rs2,751.15/Neutral), Pantaloon Retail (India) Ltd (PART.BO/Rs414.10/Overweight), Procter & Gamble (PG/\$62.50/Neutral), Titan Industries Limited (TITN.BO/Rs1,880.30/Neutral), United Spirits Limited (UNSP.BO/Rs1,334.80/Overweight)

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