

IPO NOTE



QUALITY POWER ELECTRICAL EQUIPMENTS LIMITED

13.02.2025



Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



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- ◆ Incorporated in 2001, Quality Power Electrical Equipments Limited is engaged in the business of energy transition equipment and power technologies. The company provides high-voltage electrical equipment and solutions for grid connectivity and energy transition, specializing in power products across generation, transmission, distribution, and automation sectors.
- ◆ The company manufactures critical high-voltage equipment for High Voltage Direct Current (HVDC) and Flexible AC Transmission Systems (FACTS) networks, enabling energy transition from renewable sources to power grids.
- ◆ With over 20 years of experience, the company offers global reactors, transformers, converters, and grid interconnection solutions.
- ◆ The company operates manufacturing facilities in Sangli, Maharashtra, and Aluva, Kerala. In 2011, it acquired 51% of Endoks, a Turkey-based subsidiary with design, assembly, and project management capabilities.
- ◆ As of March 31, 2024, the company had 210 customers, including power utilities, power industries, and renewable energy entities.

Product Portfolio:

- ⇒ Power Products: Reactors, Line Traps, Transformers, Instrument Transformers, Line Tuners, Metal Enclosed Capacitor Bank, Composites.
- ⇒ Power Quality Systems: Static VAR compensators, STATCOMs, Harmonic Filters, Capacitor Banks, and Shunt Reactors.
- As of March 31, 2024, the company has 163 full-time employees and 372 contractual workers.

Issue Details

Price Band (in ₹ per share)	401.00-425.00
Issue size (in ₹ Crore)	822.91-858.70
Fresh Issue (in ₹ Crore)	225.00
OFS (in ₹ Crore)	597.91-633.70
Issue open date	14.02.2025
Issue close date	18.02.2025
Tentative date of Allotment	19.02.2025
Tentative date of Listing	21.02.2025
Total number of shares (lakhs)	205.21-202.05
No. of shares for QIBs (75%) (lakhs)	153.91-151.53
No. of shares for NII (15%) (lakhs)	30.78-30.31
No. of shares for S-HNI (33%) (lakhs)	10.26-10.10
No. of shares for B-HNI (66%) (lakhs)	20.52-20.20
No. of shares for retail investors (10%) (lakhs)	20.52-20.20
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	26
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	10426-11050
Maximum no. of shares for Retail investors at Lower Band	494 (19 lots)
Maximum no. of shares for Retail investors at Upper Band	468 (18 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	198094-198900
Minimum no. of shares for sHNI (2 Lakhs) at upper band	494 (19 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	2340 (90 lots)
Minimum number of shares for bHNI at upper band	2366 (91 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- THALAVAI DURI PANDYAN
- CHITRA PANDYAN
- BHARANIDHARAN PANDYAN
- PANDYAN FAMILY TRUST

Objects of the Offer

The company proposes to utilise the Net Proceeds towards funding the following objects:

- ◆ Payment of the purchase consideration for the acquisition of Mehru Electrical and Mechanical Engineers Private Limited up to Rs.117 Crores.
 - ◆ Funding capital expenditure requirements of the Company for the purchase of plant and machinery up to Rs.27.21 Crores.
 - ◆ Funding inorganic growth through unidentified acquisitions and other strategic initiatives
- General Corporate Purposes.



BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	H1FY25	FY24	FY23	FY22
Share Capital^^	72.15	72.15	0.15	0.15
Net Worth	238.62	190.32	175.65	160.29
Revenue from Operations	155.73	300.59	253.25	182.63
EBITDA	31.40	38.10	32.34	23.30
EBITDA Margin (%)	20.16	12.68	12.77	12.76
Profit/(Loss) After Tax	50.07	55.47	39.89	42.22
EPS (in Rs.)	4.56	5.19	2.86	2.29
Net Asset Value (in Rs.)	20.99	29.15	22.71	26.34
Total borrowings	25.55	38.27	10.60	11.51
P/E#	46.60^	81.89	NA	NA
P/B#	12.85	16.11	NA	NA

*Restated consolidated financials; #Calculated at upper price band; ^Annualised; ^^January, 2024: Bonus issue in the ratio of four hundred and eighty (480) Equity Shares for every one (1) existing Equity Share held.

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	182.64	253.25	300.60
Other Income	29.10	20.30	30.80
Total Income	211.73	273.55	331.40
YoY Growth (%)	-	38.66%	18.70%
Cost of Materials Consumed	107.99	157.53	205.30
Cost of Materials Consumed-% of Revenue	51.00%	57.59%	61.95%
Changes in inventories of work-in-progress in stock in trade	-0.85	2.31	-5.02
Employee benefit expenses	16.60	20.06	24.76
Employee Expenses-% of Revenue	7.84%	7.33%	7.47%
Other expenses	35.71	41.19	37.72
EBIDTA	23.30	32.34	38.11
EBIDTA Margin (%)	11.00%	11.82%	11.50%
Depreciation and amortisation expense	1.93	2.34	3.37
EBIT	21.38	30.01	34.74
EBIT Margin (%)	10.10%	10.97%	10.48%
Finance cost	1.48	2.67	2.29
Profit before share of profit of Joint venture and Tax	48.88	47.46	62.99
Exceptional items (Gain)/Loss	-0.12	-0.19	-0.27
Profit before tax	48.994	47.643	63.255
Tax expenses			
Current tax	7.24	7.88	7.76
Deferred Tax	-0.47	-0.13	0.03
Total tax expenses	6.77	7.75	7.78
Profit for the year	42.23	39.89	55.47
PAT Margin (%)	23.12%	15.75%	18.45%
Earnings per share			
Basic earnings per share (₹)	2.29	2.86	5.19

Cashflow Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	17.09	54.88	60.76
Income tax paid (net of refunds)	8.56	10.58	9.25
Net cash generated from operating activities	8.54	44.31	51.52
Net cash used in investing activities	20.58	-31.00	-38.59
Net cash used in financing activities	1.62	-3.58	25.38
Impact of foreign step down subsidiary	-33.70	-23.99	-42.18
Net increase/ (decrease) in cash and cash equivalent	-2.96	-14.26	-3.88
Balance as at beginning	68.41	65.45	51.19
Cash and cash equivalent as at year end	65.45	51.19	47.31

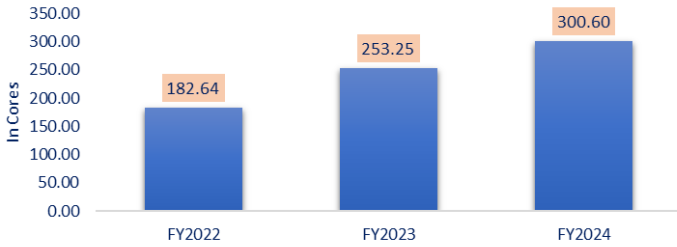
Balance Sheet

Particulars (In Crores)	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, Plant and Equipment	33.66	38.78	65.40
Capital work in progress	-	0.69	1.73
Other Intangible Assets	0.19	0.67	0.56
Goodwill	0.04	0.04	0.04
Financial Assets	0.00	0.00	0.00
Investment	0.00	1.48	1.61
Other Financial assets	35.41	41.26	43.86
Deferred tax assets	2.07	1.88	0.75
Other non-current assets	0.39	7.73	13.26
Total non-current assets	71.76	92.53	127.21
Current Asset			
Inventories	40.77	47.87	23.46
Financial Assets	0.00	0.00	0.00
Investments	-	29.19	45.91
Trade Receivables	53.90	65.00	79.48
Cash and Cash Equivalents	65.45	51.19	47.31
Bank Balances other than above	2.47	0.61	0.36
Other financial assets	2.47	4.83	15.66
Current tax assets (net)	0.09	0.33	2.31
Other Current Assets	15.95	20.69	17.19
Total current Asset	181.09	219.71	231.67
Total assets	252.86	312.24	358.88
Equity and liabilities			
Equity			
Equity Share Capital	0.15	0.15	72.15
Other Equity	0.00	0.00	0.00
Total equity attributable to the Owners of the Company	92.39	111.95	81.04
Non-controlling interest	67.75	63.56	37.14
Total equity	160.29	175.66	190.33
Liabilities			
Non-Current liabilities			
Financial Liabilities			
Borrowings	0.31	0.20	1.30
Other Financial Liabilities	0.87	1.31	1.86
Deferred tax liabilities (net)	0.12	0.14	0.13
Total Non-Current liabilities	1.29	1.65	3.28
Current liabilities			
Financial liabilities			
Borrowings	11.21	10.41	36.98
Trade payables	0.00	0.00	0.00
Due to MSME	5.79	1.34	1.90
Due to other than MSME	21.51	51.42	62.42
Other financial liabilities	27.39	47.54	43.51
Provisions	0.31	0.00	0.00
Other current liabilities	25.06	24.22	20.46
Current tax liabilities	-	-	-
Total Current liabilities	91.27	134.94	165.28
Total liabilities	92.56	136.58	168.56
Total equity and liabilities	252.86	312.24	358.88

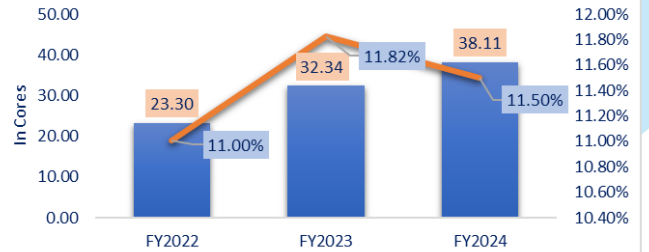


PERFORMANCE THROUGH CHARTS

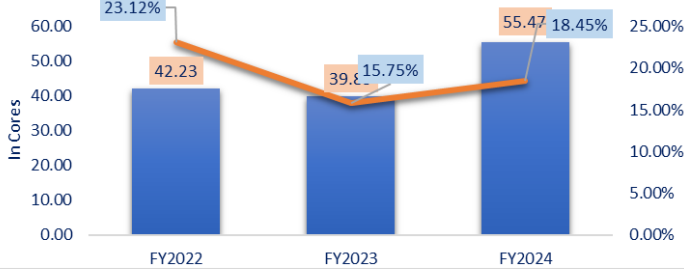
REVENUE HAS GROWN BY 28% CAGR 2 YR



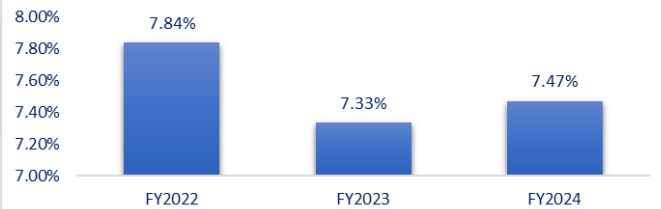
EBIDTA GREW BY 28% CAGR 2 YR



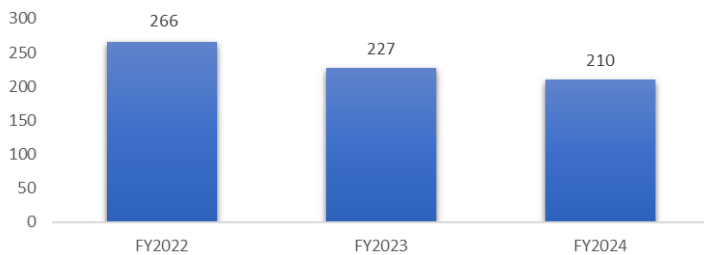
PAT GREW BY 15% CAGR 2 YR



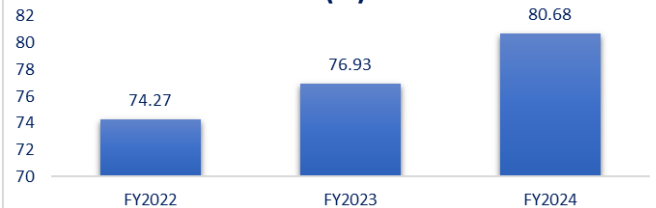
EMPLOYEE EXPENSE AS % TO REVENUE IS STEADY



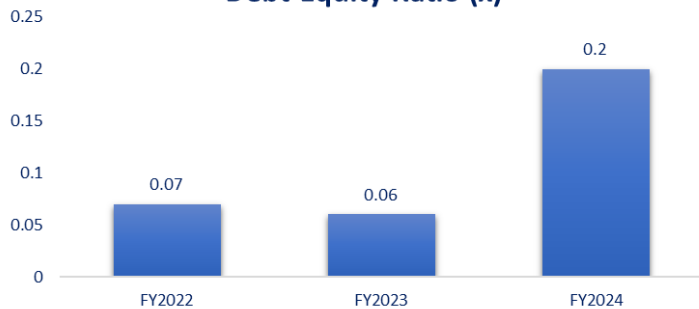
No. of Customers



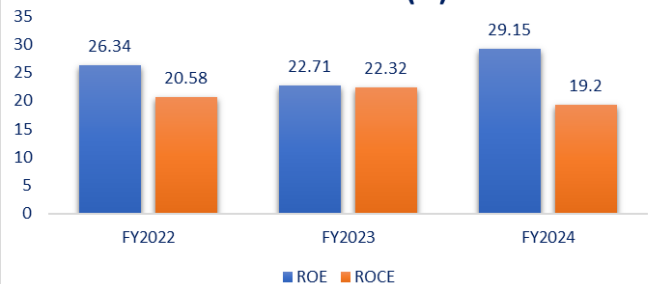
Revenue from international markets (%)



Debt-Equity Ratio (x)



Return Ratios (%)



INDUSTRY REVIEW

OVERVIEW OF ENERGY TRANSITION EQUIPMENT & POWER TECHNOLOGIES INDUSTRY.

- The energy transition equipment and power technologies market is poised for significant growth in the coming decades.
- As governments and businesses around the world intensify their efforts to decarbonize the energy sector, the market for energy transition equipment will continue to expand, driven by technological advancements, supportive policies, and increasing public awareness of the need for climate action.
- Emerging markets such as India, China, and Southeast Asia are expected to be major growth areas for energy transition equipment, as these regions are rapidly scaling up their renewable energy capacity and investing in grid modernization.
- Additionally, the electrification of transportation and the rise of green hydrogen as a clean energy carrier will open new opportunities for equipment manufacturers and technology providers.
- The energy transition equipment market is a cornerstone of the global shift towards a sustainable energy future.
- By providing the tools and technologies needed to generate, store, distribute, and efficiently use clean energy, this market is essential for achieving global climate goals, enhancing energy security, and promoting economic growth in a low-carbon world.

OVERVIEW OF GLOBAL RENEWABLE ENERGY.

- According to IEA, Renewable electricity capacity additions achieved an estimated 507 GW in 2023, marking an increase of nearly 50% compared to the previous year, 2022.
- The substantial growth is attributed to ongoing policy support in over 130 countries, prompting a significant shift in the global growth trend.
- The global acceleration in 2023 was primarily fuelled by the year-on-year expansion of China's thriving market for solar PV (+116%) and wind (+66%).
- The trend of increasing renewable power capacity additions is expected to persist over the next five years, with solar PV and wind collectively representing a record 96% of the total.
- This dominance is due to their lower generation costs compared to both fossil and non-fossil alternatives in most countries, coupled with sustained policy backing.
- Solar PV capacity, encompassing both large utility-scale and small distributed systems, constitutes two-thirds of the anticipated growth in global renewable capacity for the current year.
- Solar PV and wind installed capacity constitute more than 90% of the total renewable energy installed capacity.
- The installed capacity of renewable energy is expected to reach 11,000 GW by 2030 under COP28 targets.

GLOBAL HVDC AND FACTS MARKET.

- High Voltage Direct Current (HVDC) and Flexible AC Transmission Systems (FACTS) are both critical energy transition systems and methods for optimizing transmission performance.
- HVDC uses direct current for the energy transition of bulk power over long distances.
- HVDC lines are less expensive and provide less loss of DC energy through long distances as compared to AC transmission.
- It interconnects the networks with different frequencies and characteristics. HVDC lines increase the efficiency of transition lines due to which power is rapidly transferred.
- They are majorly used in the energy transition of renewable energy.
- The global market for HVDC and FACTS has grown at a CAGR OF 11% from Mn 10,162 USD in FY19 to Mn 13,217 USD in FY23.
- Owing to the increase in global adoption of renewable energy, the HVDC and FACTS market globally is expected to grow at a CAGR of 75-80% by CY28.
- This large growth is expected based on projects approved all over the world and the backlog in the supply of HVDC and FACTS globally.



COMPETITIVE STRENGTHS OF THE COMPANY

GLOBAL ENERGY TRANSITION AND POWER TECHNOLOGY PLAYER CATERING TO DIVERSE INDUSTRY SEGMENTS AND POISED TO BENEFIT OUT OF GLOBAL SHIFT TOWARDS DECARBONIZATION AND ADOPTION OF RENEWABLE ENERGY;

- They are a technology-driven company specializing in the provision of high-voltage electrical equipment and solutions for electrical grid connectivity and energy transition across power generation, transmission, transition, distribution and automation areas.
- Besides, they offer equipment and solutions tailored for emerging applications such as large-scale renewables. (Source: Care Report)
- They are among the few global manufacturers of critical high-voltage equipment for HVDC and FACTS networks.
- These equipment and networks form key components for energy transition from renewable sources to traditional power grids.
- With supplies across 100 countries, they cater to various industries like automobiles, oil and gas industries, cement, chemical, renewables, traction & locomotives, steel & metal industries, and power utilities in different markets spanning 6 continents, thereby enabling them to be a global player.
- They offer equipment and solutions tailored for emerging applications such as large-scale renewables.
- Their product portfolio contributes to advancing decarbonization efforts, sustainability, and green energy initiatives.
- The adoption of HVDC and STATCOM technologies is vital for the green energy transition, as they facilitate the efficient and stable integration of renewables into the power grid.

DEMONSTRATED TRACK RECORD OF GROWTH AND FINANCIAL PERFORMANCE FOR THE SIX-MONTH PERIOD THAT ENDED SEPTEMBER 30, 2024, AND THE LAST THREE FISCALS;

- Their established presence, technological know-how and experience underscore their capacity to effectively grow in the critical energy transition equipment and power technologies sector, ensuring sustainable and reliable energy solutions for their clients.
- From a single operations unit in India in 2004 to 7 units today in India and abroad is indicative of their growth.
- Their financial statements indicate a track record of consistent financial performance.
- Their technology-driven operations and low operational costs have resulted in comparatively higher operating margins.
- They have been able to scale their operations with limited capital expenditure and working capital to offer additional service offerings.
- Their business model has been profitable since the inception of their Company and they have experienced continuous growth in their operations during the six-month period ended September 30, 2024 and over the financial years ended March 31, 2024, 2023 and 2022.

DIVERSIFIED CUSTOMER BASE OF GLOBAL BUSINESSES WITH LONG-LASTING RELATIONSHIPS;

- Since their inception, they have ensured the delivery of high-quality high-voltage electrical equipment and solutions for electrical grid connectivity and energy transition and services.
- As of September 30, 2024, they had 143 customers.
- Their end customers include power utilities, renewable energy players and industries like automobiles, oil and gas industries, cement, chemical, renewables, traction & locomotives, steel & metal industries, and power utilities.
- Their customers have specific pre-approval criteria based on past experiences, test qualifications, and brand preferences.
- These factors significantly influence their purchase decisions, guiding them towards products and services that meet their standards and expectations.
- Their customers include large business conglomerates listed in the Fortune 500 category.
- These customers are focused on technology, scale of operations, reliability and quality, particularly in energy projects undertaken by them.
- They have developed a long-term business relationship with most of their customers which they believe is due to the quality and delivery of their products and services.
- Understanding the evolving needs of their customers allows for tailored offerings and potentially expanding order volumes.
- Further, their portfolio comprises product offerings that span across domestic and international markets, enabling them to access their customers effectively.
- The key regions they cater to include Asia, the Middle East, North America, South America, Australia and Europe.

RISK FACTORS

THEY DERIVE THE MAJORITY OF THEIR REVENUE FROM INTERNATIONAL MARKETS, WHICH CONTRIBUTED TO MORE THAN 74.00% OF THEIR TOTAL REVENUE DURING THE SIX MONTHS ENDED SEPTEMBER 30, 2024, AND IN EACH OF THE LAST THREE FISCALS;

- Their portfolio comprises product offerings that span across domestic and international markets, enabling them to access their customers effectively.
- The key regions they cater to include Asia, the Middle East, North America, South America, Australia and Europe.
- Further, as part of their expansion plans, they intend to focus on overseas operations and expand their customer base by identifying the locations in new regions or acquiring running operating facilities.
- The risks involved in entering new geographical regions and expanding operations in those areas may be higher than expected.
- As they enter new locations, they will face competition from regional or national players, who may have an established local presence and may be more familiar with local customers' design preferences, business practices and customs.
- By expanding into new geographical regions, they may be exposed to significant liability and could lose some or all of their investment in such regions, as a result of which their business, financial condition and results of operations could be adversely affected.
- While they have not experienced any of the above risks that hurt their business operations and financial conditions in the last three Fiscals, they cannot assure that these risks will not arise in the future.

THEY ARE DEPENDENT ON THE PERFORMANCE OF THE MARKET FOR HIGH-VOLTAGE DIRECT CURRENT ("HVDC") AND FLEXIBLE ALTERNATING CURRENT TRANSMISSION SYSTEMS ("FACTS"), WHICH IN TURN IS DEPENDENT ON A RANGE OF SOCIAL, ECONOMIC AND REGULATORY FACTORS BEYOND THEIR CONTROL;

- As a manufacturer and supplier of customized products such as reactors, transformers, static var compensators ("SVC") and static synchronous compensators ("STATCOM") their business is dependent on the performance of the market for high-voltage direct current ("HVDC") and flexible alternating current transmission systems ("FACTS").
- In addition to social, economic and environmental factors, the HVDC and FACTS market may be significantly influenced by evolving regulatory frameworks, such as the 'Make in India' initiative, which encourages domestic manufacturing, as well as stringent local operating compliance requirements.
- Additionally, changes in import-export regulations and restrictions could further impact the market dynamics, potentially affecting the availability of raw materials, components, and finished products.
- Given the impact of various industry-related factors on their business, they cannot assure you that the demand for their products in the future will grow, or will not decrease, which could have a material adverse effect on their business, results of operations and financial condition.

ANY DISRUPTION, BREAKDOWN OR SHUTDOWN OF THEIR OPERATING FACILITIES MAY HAVE A MATERIAL ADVERSE EFFECT ON THEIR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND CASH FLOWS;

- They have a total of seven operating facilities which are located in India at Sangli, Maharashtra, and Aluva, Kerala and in Turkey at Ankara.
- Operating facilities are categorised as those facilities of the Company from where the Company conducts its operations for sales and supply of products to its customers.
- The six India-based operating facilities are engaged in the manufacturing of products and the one Turkey-based facilities are engaged in design, operation, assembly, project management and delivery operations.
- They are dependent on their operating facilities for the production of their products and provision of their services.
- Adverse events affecting the geographical areas where their operating facilities are located such as their facility in Turkey, may disrupt their production and operations, leading to potential delays, increased costs, and interruptions in the supply chain.
- While they have not experienced any such disruptions in the past, there cannot be any assurance that they will not experience it in the future.
- Their customers rely significantly on the timely delivery of their products and their ability to provide an uninterrupted supply of their products is critical to their business.
- While they seek to ensure a timely supply of their products to their customers and there have not been any material delays in the past, their customer relationships, business and financial results may be adversely affected by any disruption of operations of their product lines and installed capacity, due to any of the factors mentioned above.

PEER COMPARISON

Name of the company	Total Revenue (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoE (%)	P/E*	P/B*
Quality Power Electrical Equipments Lim-	300.59	10.00	5.19	26.38	29.15	81.89	16.11
Transformers & Rectifiers (India) Limited	1294.67	1.00	3.24	39.49	8.35	271.25	22.26
Hitachi Energy India Ltd	5237.49	2.00	38.64	320.86	12.04	317.65	38.25
GE Vernova T&D India Limited	3167.91	2.00	7.07	48.54	14.57	239.84	34.93

*P/E & P/B ratio based on closing market price as of February 10th, 2025, at the upper price and of IPO, financial details consolidated audited results as of FY24.

KEY BUSINESS INSIGHTS

Global Presence and Market Leadership: QPEEL, a leading player in high-voltage electrical equipment and energy transition solutions, serves global clients in power generation, transmission, distribution, and automation. With seven manufacturing facilities worldwide and two more under construction, QPEEL efficiently scales operations. It boasts a strong client base, including Fortune 500 companies, and avoids tender-based businesses to maintain order book stability. As an Indian company successfully selling in China, QPEEL is well-positioned in competitive and regulated industries.

Core Technologies and Innovation: QPEEL specializes in High Voltage Direct Current (HVDC) and Flexible Alternating Current Transmission Systems (FACTS), including Static Synchronous Compensators (STATCOM). These technologies enable efficient, long-distance power transmission with reduced energy losses and ensure stable grid connectivity for renewables like offshore wind and remote solar farms. HVDC and FACTS solutions improve grid resilience, making QPEEL a leader in next-generation energy transition technologies.

Renewable Energy and Market Expansion: India's goal of achieving 30GW of renewable capacity, currently operating at 20GW, underscores strong demand for QPEEL's products. The EU's adoption of HVDC technology presents significant expansion opportunities. QPEEL's recent acquisition in Turkey has enabled entry into the oil and gas sector, securing major clients like Reliance Industries and Saudi Aramco, ensuring long-term growth prospects.

Backward Integration and Cost Efficiency: QPEEL's in-house development of polymer compounding, copper processing, and electronic manufacturing services (EMS) reduces dependency on external suppliers and improves cost efficiency. This backward integration enhances scalability and allows QPEEL to maintain control over quality and pricing. QPEEL focuses on R&D-driven innovation, offering high-efficiency components that complement existing infrastructure.

Financial Performance and Valuation: QPEEL has consistently grown its revenue and profits. For H1 FY25, QPEEL reported ₹182.72 crore in total income and ₹50.08 crore in net profit. Approximately 80.7% of revenue comes from global markets. The company benefits from significant other income through net monetary gains, primarily from dollar hedging, contributing to its higher PAT relative to EBITDA.

Strategic Business Approach: QPEEL focuses on the B2B segment, ensuring predictable revenue streams while avoiding government tenders that could introduce volatility. QPEEL emphasizes R&D and innovation, creating new market needs to stay relevant in the evolving power technology landscape.

Sector Growth and Future Outlook: As global energy transition efforts accelerate, demand for efficient power transmission solutions is expected to rise. QPEEL is well-positioned to capitalize on this trend, supported by its diversified international presence, strong financials, and commitment to innovation. The company's disciplined business approach, strategic acquisitions, and focus on high-margin solutions make it a strong contender in the rapidly evolving power sector.

OUR VIEW

Quality Power Electrical Equipments Ltd. (QPEEL) excels in high-voltage power transmission, specializing in HVDC and FACTS technologies. With seven operational facilities and two more under construction, QPEEL addresses the growing demand for energy transition solutions. Their backward integration into polymer compounding, copper processing, and EMS enhances cost efficiency. Strategic expansion, including a recent acquisition in Turkey, strengthens their market position, especially in the oil and gas sector.

The company's Revenue from Operations grew to ₹331.40 crore in FY24 from ₹211.73 crore in FY22, with PAT increasing to ₹55.47 crore in FY24. However, its PAT has consistently exceeded EBITDA due to significant income from dollar hedging, posing a risk if currency fluctuations stabilize. Additionally, the company is exposed to commodity price volatility, particularly steel.

With over 80% of revenue from global markets, QPEEL avoids tender-based businesses, ensuring stability. QPEEL's issue is available at a P/E ratio of 81x based on FY24 earnings, significantly lower than the listed peer average of 276x, partly due to MNCs reporting profits in home markets and supply-demand imbalances spread across geographically.

Despite valuation concerns, given its market position and focus on technological advancements, a SUBSCRIBE for long-term gains is recommended.

Sources: Company website and red herring prospectus

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(A Wholly Owned Subsidiary of Canara Bank)



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Analyst Certification

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