

Stock Update Datamatics Global Services Ltd.

Aug 29, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Enabled Services	Rs. 539.9	Buy in the Rs 530-550 band & add more on dips to Rs. 470-488 band	Rs. 604	Rs. 646	2-3 quarters

HDFC Scrip Code	DATMAT
BSE Code	532528
NSE Code	DATAMATICS
Bloomberg	DATA IN
CMP Aug 28, 2023	539.9
Equity Capital (Rs Cr)	29.5
Face Value (Rs)	5.0
Equity Share O/S (Cr)	5.9
Market Cap (Rs Cr)	3,182.7
Book Value (Rs)	177.8
Avg. 52 Wk Volumes	158,628
52 Week High	678.7
52 Week Low	256.0

Share holding Pattern % (June, 2023)	
Promoters	66.5
Institutions	2.7
Non Institutions	30.8
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Datamatics Global Services Ltd. is a technology solution and services company, providing solutions for data driven enterprises. The company is engaged in three key segments—digital operations, digital experience and digital technology. The company’s customer base is diversified across various sectors, such as BFSI, manufacturing, hospitality, publishing, and international organisations, among others. The company has also developed products in robotics process automation, advanced analytics, business intelligence, and automated fare collection. Datamatics is headquartered in Mumbai, with offices across North America, Europe, Australia and Asia, through its subsidiaries.

Datamatics added 14 new customers in Q1FY24, mainly in the US and European markets, 58% YoY increase in the active pipeline. Total customers stood at 300+. Overall the demand environment looks positive. The deal pipeline for the next year remains strong and the company is likely to add clients going forward. We expect that the company could report 13.3% and 18.2% revenue growth in FY24E and FY25E, respectively.

Datamatics plans to concentrate on Digital Transformation, Intelligent Automation, Automatic Fare Collection (AFC), using its proprietary IP Products (TruCap+, TruBot, iPM, TruBI, TruAI, TruFare). The company’s Digital Operation segment, which contributed 43% in FY23, is expected to report high volume of new work in the next 5 years, including industry-vertical-oriented operations and enterprise back office operations. Besides, Robotic Process Automation and Artificial Intelligence are emerging segments in the industry. Robotic Process Automation (RPA) could be another game changer for IT Industry. Datamatics has entered into the segment much before its peers. RPA solutions can help enterprises simplify, automate and transform customers’ businesses. Datamatics has been successfully using Robotic Process Automation (RPA) technology as a key enabler to help clients in their digital transformation journey.

On June 12, 2023, we had issued an Initiating Coverage report on Datamatics Global Services Ltd. ([Link](#)) and recommend to buy in the Rs. 532-552 band & add more on dips to Rs. 477-495 band for base case target of Rs 599 and bull case target of Rs 641 over the next two to three quarters. The stock achieved its base case target before expiry of the period. Given healthy growth outlook and expectation of strong set of numbers in Q2FY24, we have now tweaked earnings estimates and target price.

Valuation & Recommendation:

Datamatics caters to a number of industry segments like banking and finance, insurance, manufacturing, telecom and retail and publishing. Company is focused on emerging business and expanding its reach by partnership and acquisitions. Datamatics has continued to focus its efforts towards offering a comprehensive suite of customized, smart and innovative solutions, powered by Artificial Intelligence and Machine Learning, Robotics, IoT, Cloud and Mobility. We think the company could get better opportunity in Automation, Robotics and Artificial



Intelligence because of an early entry in the segment. Datamatic’s strong order inflow, stable financial profile led by steady revenue growth, strong liquidity profile, healthy internal accrual generation, comfortable capital structure and extensive experience of promoters in IT and ITeS industry gives us comfort. It could get less impacted by the current slowdown affecting some midcap IT stocks given the spread of its service, geographies and reasonable valuations. Also the stock has corrected well over the past 6 weeks providing a good entry point.

Investors can buy in the Rs 530-550 band and add on dips in the Rs 470-488 band (11.5x FY25E EPS). We believe the base case fair value of the stock is Rs 604 (14.5x FY25E EPS) and the bull case fair value of the stock is Rs 646 (15.5x FY25E EPS) over the next 2-3 quarters. At the LTP of Rs 539.9, the stock is trading at 13x FY25E EPS.

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q1FY24	Q1FY23	YoY-%	Q4FY23	QoQ-%	FY21	FY22	FY23	FY24E	FY25E
Total Operating Income	391.1	326.9	19.6	416.3	-6.1	1,149.1	1,201.1	1,459.2	1,653.5	1,954.9
EBITDA	67.8	47.8	41.8	84.1	-19.4	105.6	193.2	242.6	272.8	321.6
Depreciation	9.2	8.5	7.6	8.9	3.6	39.5	33.3	35.0	37.1	36.7
Other Income	9.1	13.2	-30.9	5.3	72.2	46.4	35.0	38.7	33.9	34.2
Interest Cost	0.5	0.9	-42.9	0.5	6.1	3.2	2.9	2.9	3.1	3.2
Tax	12.6	8.9	40.9	21.6	-42.0	25.4	36.7	58.1	60.0	71.1
APAT	55.1	43.4	26.9	59.7	-7.8	80.7	150.5	189.0	208.1	245.4
Diluted EPS (Rs)	9.3	7.4	26.9	10.1	-7.8	13.7	25.5	32.1	35.3	41.6
RoE-%						11.5	19.1	19.8	18.4	18.7
P/E (x)						39.4	21.1	16.8	15.3	13.0
EV/EBITDA (x)						27.9	14.6	11.6	10.1	8.3

(Source: Company, HDFC sec)

Q1FY24 Result Update

- Datamatics numbers were below expectations in Q1FY24, but maintained growth momentum on YoY basis and deeper engagement with strategic clients. Consolidated revenue was down by 6.1% QoQ and grew by 19.65% YoY to Rs 391 crore.
- EBIT declined by 22.2% QoQ and grew by 49.2% YoY to Rs 58.6 crore. EBIT was impacted QoQ due to wage hike and investment in product development. EBIT margin ramped down by 310bps QoQ but it increased by 300bps YoY to Rs 12% in Q1FY24.
- Net Profit was down by 7.8% QoQ and grew 26.9% YoY to Rs 55 crore. PAT margin was barely changed on QoQ basis at 14% in Q1FY24 vs. 13% in Q1FY23. The company added 14 new clients in Q1FY24. Total active clients during Q1FY24 was at 300+.
- Q1 is typically a slow quarter for Datamatics like a lot of other IT companies. We expect momentum to pick up from Q2 onwards.



Key Updates

Strong client's addition and opportunity in AFC/CFC business could help to generate revenue

Datamatics added 14 new customers in Q1FY24 and most of the customers are in the US and European markets. The company's active pipeline has increased by 58% on YoY and 35% on QoQ basis. Besides, the company is working on Automatic Fare Collection (AFC) opportunities, and the company expects to win new orders in near to medium term. The company's AFC business have gone live with line 2A and line 7 and working on line 2B in Mumbai and has successfully implemented AFC solutions globally in locations such as, San Diego, Mumbai (Line 2A and 7), Kolkata, Lucknow, Katra in Jammu, NCRTC in New Delhi and now with this Memphis, USA. In terms of the pipeline, two or three large RFPs are expected to come and the company could bid for them. The company is confident to win some AFC contracts going forward.

On Aug 24, 2023, Datamatics announced its collaboration with the Memphis Area Transit Authority (MATA) to launch GO901 Smart Card System. This innovative system, launched on August 21, 2023, revolutionizes transport in the city of Memphis, USA by offering commuters a seamless and convenient travel experience. MATA's Next Generation Fare System (NGFS), is an AFC system. Datamatics has seamlessly integrated its AFC platform, TruFare into the GO901 Smart card solution, facilitating effortless ticket purchase across the counter, loading of the Smart Cards and enabling contactless travel

Automated Fare Collection or AFC systems are hardware units powered by secure and scalable AFC software solutions that are built to automatically handle fare collection in places of high footfall, such as, metro rails, railways, mass rapid transition systems, bus rapid transit systems, ferries, waterways, parking lots, etc. AFC systems are used for cash flow automation and sustained revenue assurance even while dissipating queues and crowds quickly during heavy rush hours.

Contactless Fare Collection (CFC) is a mobile application that allows passengers to book tickets and transit passes by using their mobile phones, even for multi-modal connected journeys across a railway, a waterway, and a roadway. It allows contact-free and cash free transactions, which are facilitated by UPI, credit cards, debit cards, and net banking.

Datamatics AFC segment contributes ~6% to the revenue and the company has signed multiyear deals with Delhi, Kolkata Meerut Metro Rails for automatic fare collection (using the TrueFARE platform). These deals are at US\$85-100 mn. TCV deals has started to add incremental revenue from FY23 onwards for next three to five years. The company is working on key strategies like cost rationalization, negotiation with the existing clients and expanding into US market. Apart from this, the company is likely to continue to scale talent globally, invest in employees and accelerate innovation and digital capabilities to capitalize on the expanding market opportunities.



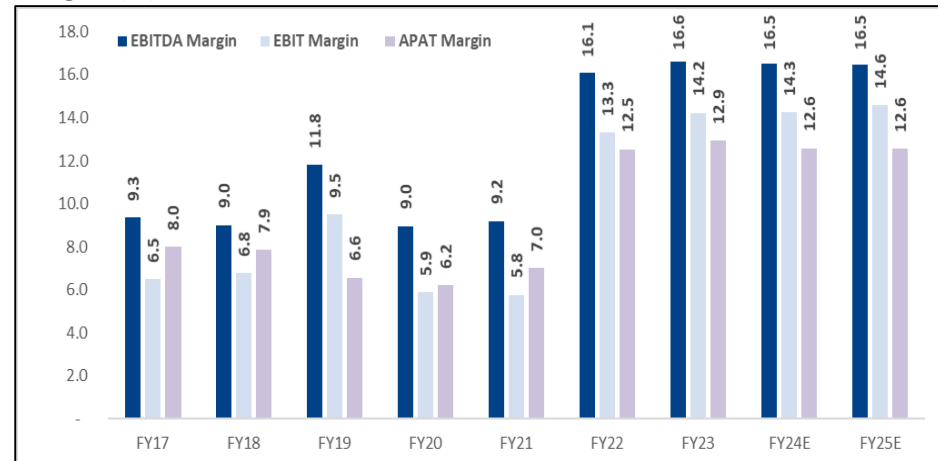
Key deal wins in Q1FY24

- A leading private bank in Middle East selects Datamatics for nextgeneration digital services
- A multinational conglomerate selects Datamatics for digital transformation
- A global fashion accessories manufacturer and retailer selects Datamatics Intelligent Automation platform for automating data collection process
- A leading European health service provider selects Datamatics for a multi-year contract for Datamatics Intelligent Automation platform
- A leading International organization selects Datamatics for legacy application modernization
- A European leader in quality assurance services selects Datamatics for Salesforce implementation
- One of the fastest growing Insurance companies selects Datamatics for insurance process management

Expectation of margins stability led by operational efficiencies

Datamatics reported EBITDA margin at 17.3% in Q1FY24 vs. 20.2% in Q4FY23 and 14.6% in Q1FY23 and EBIT margin slipped to 15% in Q1FY24 vs. Rs 18.1% in Q4FY23 and 12% in Q1FY23. PAT margin increased to 14.3% vs. 12.3% in Q3FY23 and 15% in Q4FY22. Margins were impacted in Q1FY24 due to salary increments and investment in products and development.

Margins (%)



(Source: Company, HDFC sec)

Taking into the consideration the margin levers like cost rationalisation, low margin customer’s let go strategy, better mix of onshore and offshore business, expectation of price negotiation on upward trend, favourable currency movement, increasing trend of utilisation, traction



in digital technology and other operational efficiencies, the margin stability/improvement could be seen later in FY24E and beyond. The company expects stable margins or marginal improvement in margins in FY24E. Hence, we expect EBITDA margin at ~16.5% for FY24E to FY25E and PAT margins at 12.6% for FY24E to FY25E.

Strong fundamentals led by healthy debt protection metrics and liquidity

- Datamatics has reported stable and strong revenue growth in the past. In FY23, the company generated total revenue of Rs 1459 crore and net profit of Rs 189 crore, which grew at a CAGR of 10% and 21.6% over the past decade, supported by growth across geographies and segments. We expect consolidated revenue to grow at a ~16% CAGR and net profit to grow at a ~14% over FY23-FY25E.
- The company's EBIT margin ramped up to 13.3% in FY22 and 14.2% in FY23, supported by the cost rationalisation initiatives, negotiation with clients for price hike, better mix of offshore and onshore services, and shifting to own IP based product and platform. We expect margin at 14.3% and 14.6% in FY24E and FY25E, supported by cost rationalisation efforts.
- The company has robust debt protection metrics and continued to rely on minimal debt and maintained a comfortable capital structure with gearing of 0.1x as on March 31, 2023.
- In the absence of any material capex or investments towards inorganic growth over the last two years, the cash and cash equivalent have increased, translating into strong liquidity position for the company. The total cash, cash equivalents and fair value of Mutual Funds stood at Rs 555 crore as on June 30, 2023 vs. Rs 498 crore at the end of March 31, 2023.
- The net receivable days remain decreased to 60 days in Q1FY24 vs. 67 days in FY23.
- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future.
- Rise in net profit margin could help to increase its return ratios, we expect RoE at 18-19% and RoCE at 18-18.6% over FY24E to FY25E, respectively.

What could go wrong?

- Indian rupee appreciation against the USD, pricing pressure, retention of the skilled headcount, strict immigration norms and rise in visa costs are key concerns.
- Datamatics derived 66% of its operating revenue in FY23 from the US, UK and EU markets; economic uncertainties and expectation of economic recession in these regions could impact demand and it could hit earning visibility.
- The company's margins are less than other major IT layers owing to its moderate scale of operations and high exposure to India and West Asian geographies, which have lower margins compared to the US and Europe.
- Given the intense competition in the industry, Datamatics' profit margins are susceptible to pricing pressures and wage inflation. Further, much of the revenues and margins are exposed to forex risks, although the company's hedging mechanisms mitigate the same to an extent.



- Any non-renewal of contracts or higher discounts due to aggressive competition intensity could impact the sustainability and scalability from such clients. Slackening of pace of new large deals could impact the growth visibility.
- Promoter holding decreased by 7.8% over the last nine months and stood at 66.5% as on June 30, 2023; further stake sale by promoter in near future could hit investor sentiments towards the company.

Company Profile

Datamatics Global Services Ltd is a technology solution and services provider company, provides solutions for data driven businesses to enhance their productivity and customer experience. The company is engaged in three key segments—digital operations, digital experience and digital technology. The company has also developed products in robotics process automation, advanced analytics, business intelligence, and automated fare collection.

The company is engaged with global customers and diversified across various sectors, such as Banking, Financial Services, Insurance, Healthcare, Manufacturing, International Organizations, and Media & Publishing. The Company has presence across 4 continents with major delivery centers in the USA, India, and Philippines, supported by ~12000 employees for more than 300 clients as on June 30, 2023. Datamatics is headquartered in Mumbai, with offices across North America, Europe, Australia and Asia, through its subsidiaries. The company is headed by Dr. Lalit S. Kanodia, the Chairman, and Mr. Rahul L. Kanodia, the Vice Chairman and CEO.

Operating Metrics

Segment wise performance

Rs in Cr	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenue										
Digital Operations	127	125	127	123	142	147	143	153	187	167
Digital Experience	38	39	37	42	40	46	52	61	59	66
Digital Technologies	119	124	135	136	131	133	148	159	169	158
Revenue from Operations	284	288	299	301	313	327	343	373	416	391
Revenue-%										
Digital Operations	44.7	43.4	42.5	40.9	45.4	45.1	41.7	41.0	45.0	42.7
Digital Experience	13.4	13.5	12.5	13.8	12.8	14.1	15.3	16.4	14.3	16.9
Digital Technologies	41.9	43.1	45.0	45.2	41.8	40.7	43.0	42.6	40.7	40.4
EBIT Margin-%										
Digital Operations	19.8	20.3	21.4	17.2	20.7	23.3	22.7	19.5	23.0	34.0
Digital Experience	11.2	4.7	12.3	24	17	23.2	25.4	27.8	28.2	15.3
Digital Technologies	2.6	4.9	7.4	8.3	4.6	-4.3	-2	2.2	9.1	9.8



Revenue By Industry

%	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23	Q1FY24
BFSI	27	25	24	24	24	25
Education & Publishing	24	23	23	22	22	20
Technology & Consulting	20	22	18	16	19	20
Mfg, Infra & Logistics	11	13	13	12	12	12
Retail	6	7	7	8	8	9
Not for profit/Govt	5	7	11	13	12	10
Others	7	3	4	5	3	4

Revenue By Geography

%	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23	Q1FY24
USA	60	55	54	54	54	55
UK & Europe	11	14	13	11	12	12
India	25	25	28	29	27	24
RoW	4	6	5	6	7	6

Client Concentrations

%	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	FY23	Q1FY24
Top-5	25	26	27	27	22	25	26	24	24	25
Top-10	36	38	39	41	35	37	35	37	37	38
Top-20	49	52	52	53	47	50	50	52	52	52

Peer Comparison

Company, Rs in Cr	Mkt Cap, Cr	Sales			EBIT			PAT			ROE-%			P/E (x)		
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Mastek	6925.6	2563.4	3093.0	3597.0	388.5	463.0	582.0	267.7	333.0	435.0	19.4	18.3	20.3	26.1	21.5	16.5
Zensar Tech	11581.8	4848.0	5106.0	5705.0	369.0	709.0	781.0	328.0	582.0	633.0	11.3	17.8	17.6	35.7	20.0	18.4
Datamatics	3182.7	1459.2	1653.5	1954.9	207.6	235.8	284.9	189.0	208.1	245.4	19.8	18.4	18.7	16.8	15.3	13.0

(Source: HDFC sec)



Financials (Consolidated)

Income Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Net Revenues	1149.1	1201.1	1459.2	1653.5	1954.9
Growth (%)	-4.5	4.5	21.5	13.3	18.2
Operating Expenses	1043.4	1007.8	1216.6	1380.7	1633.3
EBITDA	105.6	193.2	242.6	272.8	321.6
Growth (%)	-2.0	82.9	25.5	12.5	17.9
EBITDA Margin (%)	9.2	16.1	16.6	16.5	16.5
Depreciation	39.5	33.3	35.0	37.1	36.7
EBIT	66.2	159.9	207.6	235.8	284.9
Other Income	46.4	35.0	38.7	33.9	34.2
Interest expenses	3.2	2.9	2.9	3.1	3.2
PBT	109.4	192.1	243.4	266.5	315.9
Tax	25.4	36.7	58.1	60.0	71.1
RPAT	84.0	155.4	185.3	206.5	244.8
APAT	80.7	150.5	189.0	208.1	245.4
Growth (%)	7.9	86.5	25.5	10.1	17.9
EPS	13.7	25.5	32.1	35.3	41.6

Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	29.5	29.5	29.5	29.5	29.5
Reserves	686.5	827.5	1018.5	1185.3	1380.6
Shareholders' Funds	715.9	857.0	1047.9	1214.8	1410.1
Long Term Debt	10.5	6.5	12.8	10.3	12.6
Net Deferred Taxes	-15.4	-16.9	-13.9	-14.6	-15.4
Long Term Provisions & Others	27.8	33.9	41.8	39.0	33.6
Minority Interest	-0.7	-3.6	-7.2	-8.8	-9.4
Total Source of Funds	738.2	876.9	1081.4	1240.7	1431.5
APPLICATION OF FUNDS					
Net Block & Goodwill	213.4	187.5	218.1	253.9	237.4
CWIP	0.0	3.4	0.0	0.0	0.0
Other Non-Current Assets	37.8	78.6	131.9	113.0	124.3
Total Non Current Assets	251.2	269.5	350.0	366.9	361.7
Trade Receivables	183.5	244.5	268.9	335.2	407.0
Cash & Equivalents	258.5	431.7	401.3	447.2	537.5
Other Current Assets	199.5	147.1	247.2	271.9	312.7
Total Current Assets	641.5	823.4	917.4	1054.3	1257.2
Short-Term Borrowings	9.6	56.6	8.4	13.4	10.9
Trade Payables	89.5	99.9	113.4	108.7	123.2
Other Current Liab & Provisions	55.4	59.5	64.2	58.4	53.3
Total Current Liabilities	154.5	216.0	186.0	180.6	187.4
Net Current Assets	486.9	607.4	731.4	873.8	1069.8
Total Application of Funds	738.2	876.9	1081.4	1240.7	1431.5

(Source: Company, HDFC sec)



Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23	FY24E	FY25E
Reported PBT	108.9	192.1	243.4	266.5	315.9
Non-operating & EO items	-3.6	-6.6	1.1	-1.1	-1.2
Interest Expenses	0.1	-5.1	-7.5	3.1	3.2
Depreciation	39.5	33.3	35.0	37.1	36.7
Working Capital Change	-7.6	9.8	-93.4	-102.5	-104.5
Tax Paid	-25.6	-41.1	-47.8	-60.0	-71.1
OPERATING CASH FLOW (a)	111.6	182.4	130.7	143.2	179.0
Capex	-16.8	-27.3	-39.0	-35.0	-45.0
Free Cash Flow	94.8	155.1	91.8	108.2	134.0
Investments	-68.6	-110.7	-70.5	-21.4	8.6
Non-operating income	6.1	3.8	10.5	1.1	1.2
INVESTING CASH FLOW (b)	-79.3	-134.2	-99.0	-55.3	-35.3
Debt Issuance / (Repaid)	-116.1	27.5	-65.0	2.5	-0.3
Interest Expenses	-2.9	-2.3	-2.6	-3.1	-3.2
FCFE	-24.3	180.3	24.2	107.5	130.6
Share Capital Issuance	0.4	0.0	0.0	0.0	0.0
Dividend	9.8	-4.5	1.2	-41.3	-50.1
FINANCING CASH FLOW (c)	-108.8	20.7	-66.4	-41.9	-53.5
NET CASH FLOW (a+b+c)	-76.5	68.9	-34.7	45.9	90.3

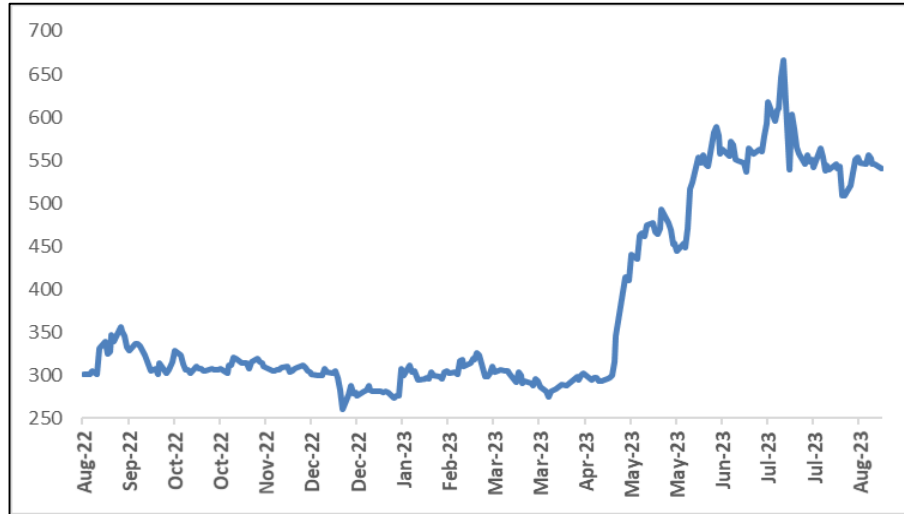
Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E
Profitability Ratio (%)					
EBITDA Margin	9.2	16.1	16.6	16.5	16.5
EBIT Margin	5.8	13.3	14.2	14.3	14.6
APAT Margin	7.0	12.5	12.9	12.6	12.6
RoE	11.5	19.1	19.8	18.4	18.7
RoCE	10.8	18.5	19.2	18.2	18.6
Solvency Ratio (x)					
Debt/EBITDA	0.2	0.3	0.1	0.1	0.1
D/E	0.0	0.1	0.0	0.0	0.0
PER SHARE DATA (Rs)					
EPS	13.7	25.5	32.1	35.3	41.6
CEPS	20.4	31.2	38.0	41.6	47.9
BV	121.5	145.4	177.8	206.1	239.2
Dividend	1.3	0.0	0.0	3.8	5.0
Turnover Ratios (days)					
Debtor days	58	74	67	74	76
Creditors days	28	30	28	24	23
VALUATION (x)					
P/E	39.4	21.1	16.8	15.3	13.0
P/BV	4.4	3.7	3.0	2.6	2.3
EV/EBITDA	27.9	14.6	11.6	10.1	8.3
EV / Revenues	2.6	2.3	1.9	1.7	1.4
Dividend Yield (%)	0.2	0.0	0.0	0.7	0.9
Dividend Payout (%)	9.1	0.0	0.0	10.6	12.0

(Source: Company, HDFC sec)



One Year Price Chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Disclosure:

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