



## India

**REDUCE** (previously ADD)

Consensus ratings\*: Buy 2 Hold 1 Sell 0

Current price: Rs1,692  
 Target price: ▼ Rs1,206  
 Previous target: Rs2,151  
 Up/downside: -28.7%  
 InCred Research / Consensus: -24.4%

Reuters:  
 Bloomberg: EPIGRAL IN  
 Market cap: US\$1,005m  
 Rs72,978m  
 Average daily turnover: US\$3.8m  
 Rs277.7m  
 Current shares o/s: 41.6m  
 Free float: 28.6%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.9)	(16.0)	75.6
Relative (%)	(6.1)	(11.7)	63.8

Major shareholders	% held
Promoter & Promoter Group	71.4
Dimensional Fund Advisors LP	0.5
BlackRock Inc	0.1

## Research Analyst(s)

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**Epigral Ltd****Peak EPS growth is behind us; REDUCE**

- ECH to face pricing headwinds due to global oversupply, slowing epoxy demand and competitive pressure from propylene-based production.
- Caustic soda prices are likely to remain steady, supported by reduced imports, energy-driven challenges in Europe, and steady domestic demand.
- EPS likely to remain stagnant due to ECH weakness, despite relative strength in caustic soda, leads us to cut our target price to Rs1,206.

**ECH prices can come under pressure in the coming months**

Epichlorohydrin (ECH) presents a unique import substitution opportunity for Epigral, particularly with its plan to aggressively expand production capacity in India. However, the global ECH market faces oversupply challenges, with the current global demand at ~2.26 mt (growing at a 3–4% CAGR) against a capacity of 3.4–4mt. This imbalance, coupled with slowing demand for epoxy resins (the primary consumer of ECH), is expected to depress the spreads further. India imports a significant volume of ECH from Thailand, but as Epigral doubles its capacity, domestic oversupply may intensify. Additionally, the glycerine-based ECH production route, which Epigral employs, may face margin pressure as global propylene prices decline, making propylene-based production more competitive.

**New chlorotoluene will face competitive pressure in India...**

In the chlorotoluene market, multiple new capacities from Epigral and Aarti Industries are set to come online, but the Indian import substitution opportunity is limited, with domestic demand at only ~3,200t annually. Consequently, these new capacities will likely target export markets. Chlorotoluene is an intermediate used in industries such as agriculture, pharmaceuticals, and specialty chemicals. However, like many other commodities, chlorotoluene's spreads have declined post-Covid, reflecting the broader challenges of overcapacity and reduced demand.

**...but caustic soda market may remain strong**

In contrast, the caustic soda market shows more resilient pricing dynamics, especially in India. Global overcapacity persists, but falling imports & reduced exports from regions like Europe, particularly Germany, due to energy challenges, have kept Indian prices elevated. Although a collapse to historical lows (e.g., Rs30/kg) is unlikely, moderate levels around Rs40/kg are expected to sustain, supported by lower energy prices and new capacity addition in India and China. The global operating rate of caustic soda remains heavily influenced by chlorine usage, which may see an improvement with mild economic recovery.

**EPS to remain stagnant; downgrade to REDUCE with TP at Rs1,206**

Earnings growth will be difficult to come by and the relative strength in caustic soda will be counterbalanced by weakness in ECH. EBITDA is likely to grow at a 3% CAGR over FY25F-27F. We value the stock at 15x FY27F EPS to arrive at our target price of Rs1,206.

**Financial Summary**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	21,884	25,168	25,412	27,292	33,768
Operating EBITDA (Rsm)	6,889	6,809	6,625	7,167	8,830
Net Profit (Rsm)	3,533	3,436	3,181	3,470	4,635
Core EPS (Rs)	85.0	81.1	73.7	80.4	107.4
Core EPS Growth	39.8%	(4.6%)	(9.1%)	9.1%	33.6%
FD Core P/E (x)	19.90	20.85	22.94	21.03	15.75
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	11.45	11.92	11.79	10.62	8.21
P/FCFE (x)	51.62	50.25	28.25	26.12	16.57
Net Gearing	80.5%	76.2%	22.9%	12.0%	(1.7%)
P/BV (x)	6.57	5.82	3.25	2.81	2.39
ROE	39.4%	29.6%	18.2%	14.3%	16.4%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

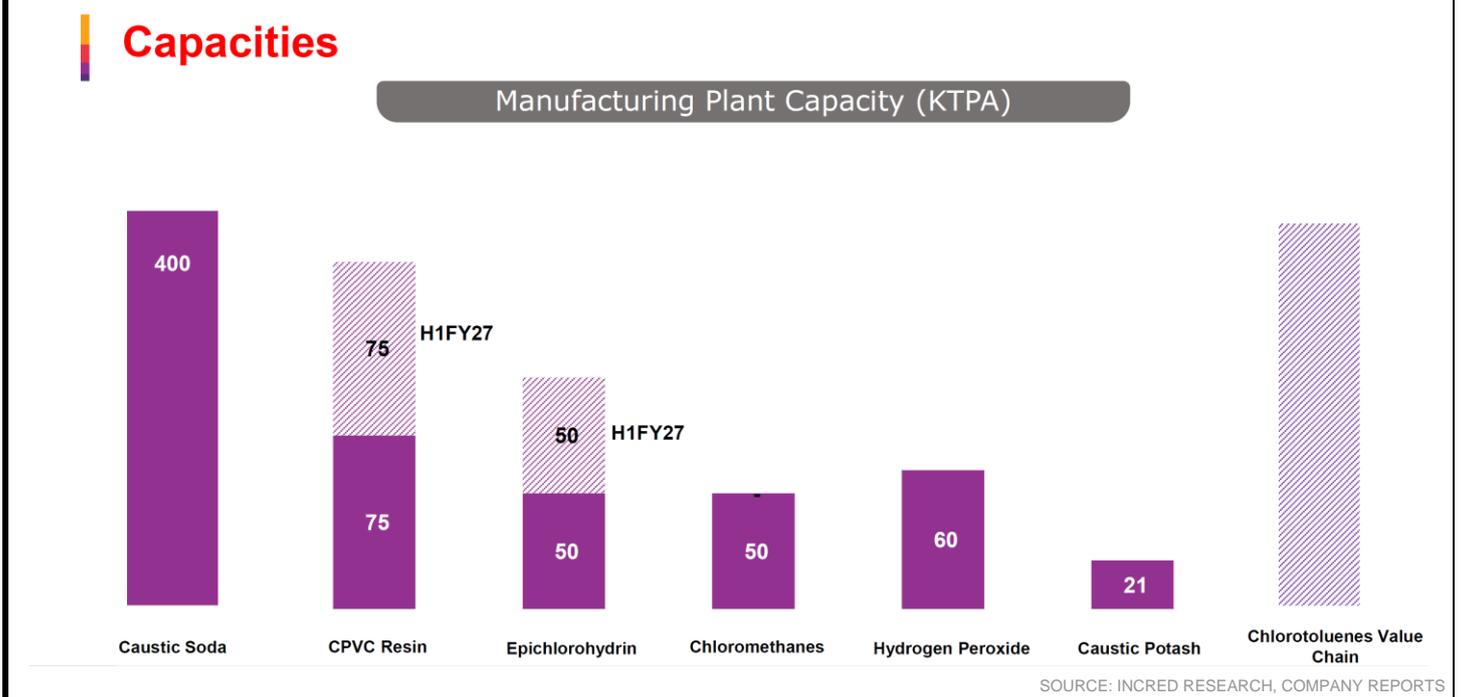
## Peak EPS growth is behind us; REDUCE

### ECH - Unique import substitution opportunity, but spreads will fall

ECH (epichlorohydrin) is the unique import substitution opportunity for Epigral; however, please note that it is the oversupplied commodity in the global market and hence, its prices are likely to fall. Also remember that Indian imports of ECH are rising from Thailand. Epigral is increasing its ECH capacity in India, which is bound to increase overall supply of the commodity in the Indian market.

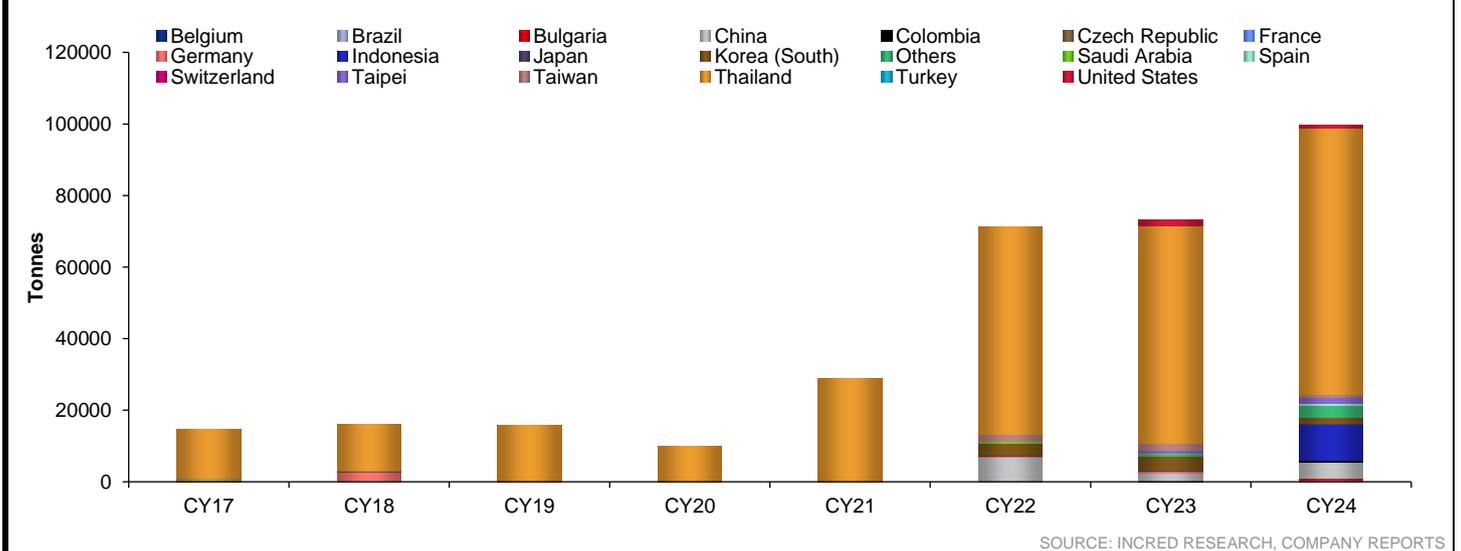
Epigral is going for aggressive increase in ECH capacity ➤

Figure 1: Epigral to double its ECH capacity in the coming years



Thailand is one of the major exporters of ECH to India ➤

Figure 2: Over the years, Thailand has been one of the major exporters of ECH to India



Global demand for ECH was ~2.16mt in 2024 ➤

Global demand for ECH is around 2.26mt and it's growing @3-4% CAGR. As the principal usage of the product is directly linked to the global economy, its demand is directly dependent on overall global growth.

1. Epoxy resins (over 75% of ECH demand) are used in paints, coatings, adhesives, and composites.
2. They are used in water treatment chemicals.
3. They are also used in pharmaceuticals and other minor applications.

### Global capacity of ECH is around 3.4-4mt ►

China is the largest producer, with a combined capacity of over 1.2–1.5mtpa from multiple players. Global capacity is ~3.5–4mtpa, with demand at ~1.8–2.2mtpa, leading to overcapacity in certain regions (notably China). Here's a list of key global producers of epichlorohydrin (ECH) along with their estimated production capacities (in mt per year):

#### Asia-Pacific

##### 1. China

- Jiangsu Yangon Chemical Group - Capacity: ~200,000–250,000tpa. It is one of China's largest ECH producers.
- Shandong Haili Chemical Industry - Capacity: ~250,000tpa. Uses glycerine-based and propylene-based production routes.
- Zhejiang Transfar - Capacity: ~150,000–200,000tpa. Focused on both domestic supply and exports.

##### 2. Other Asia-Pacific regions

- SP Chemicals (Singapore) - Capacity: ~120,000tpa. It is a major supplier in Southeast Asia.
- Tamilnadu Petroproducts (TPL) (India) - Capacity: ~20,000–30,000tpa. Limited capacity, catering mostly to the domestic market.
- Epigral (India) - Capacity -50,000t.

##### 3. Europe

- Solvay (Thailand and Europe plants)- Global Capacity: ~230,000tpa (combined). Focus on bio-based (glycerine) production technology.
- Dow Chemical (Germany) Capacity: ~100,000–150,000tpa. Advanced propylene-based production in Europe.

##### 4. North America

- Westlake Chemical - Capacity: ~250,000tpa. Major player with operations in the US and strong focus on epoxy resin production chains.
- Olin Corporation - Capacity: ~150,000tpa. Meets internal consumption need for epoxy resin and also caters to external markets.

##### 5. Middle East

- SABIC (Saudi Arabia) - Capacity: ~100,000–120,000tpa. Focuses on regional demand and global exports.

##### 6. Emerging players

- Advanced Biochemical (Thailand) - Capacity: ~100,000tpa. A pioneer in glycerine-based bio-ECH, with a growing market share.

### There are two routes to make ECH: 1) crude glycerine distillation, and 2) propylene ►

1. Glycerin-Based Route - Crude glycerin (a byproduct of biodiesel production) is purified and reacts with hydrochloric acid (HCl) to produce ECH. This method is considered more environmentally friendly than the propylene-based route.

- Propylene-Based Route - Propylene reacts with chlorine to form alkyl chloride, which is further converted to ECH through reaction with hypochlorous acid or other chlorinating agents.

**Figure 3: The glycerin-based route is preferable these days**

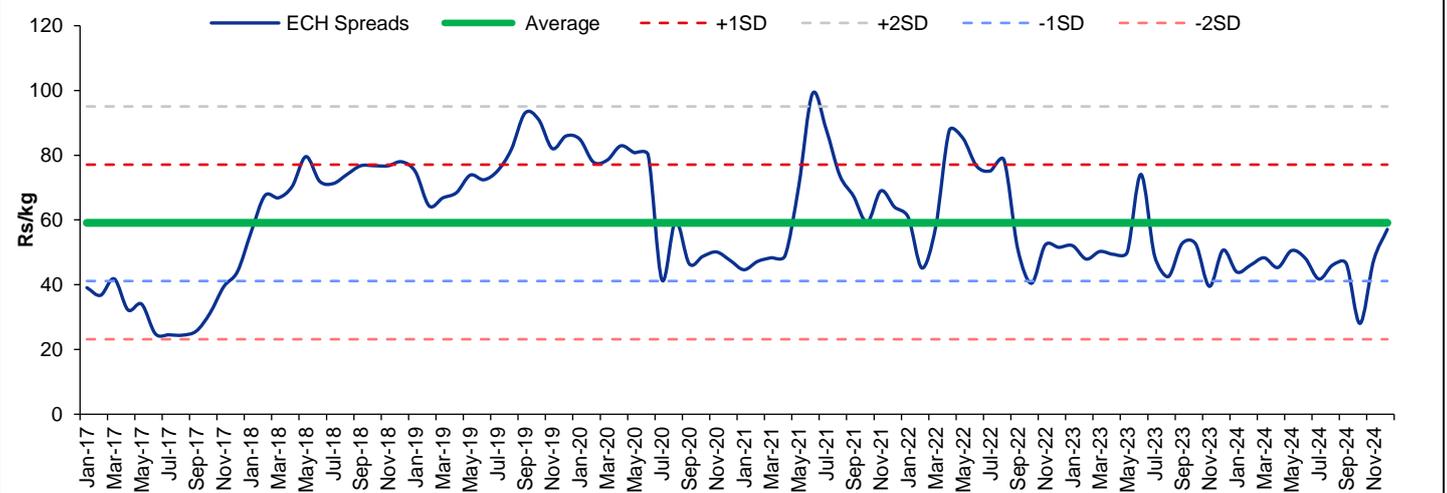
**Comparison of the two routes**

Parameter	Glycerin-Based	Propylene-Based
Feedstock	Renewable (biodiesel byproduct)	Non-renewable (petrochemical)
Environmental Impact	Low (fewer emissions)	High (waste and emissions)
Economic Viability	Dependent on biodiesel trend	Dependent on propylene prices
Market Preference	Gaining traction in Europe/Asia	Widely used globally
Capex Requirements	Moderate-to-high	High

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Propylene, being more volatile, is leading new players to prefer the glycerine route ➤**

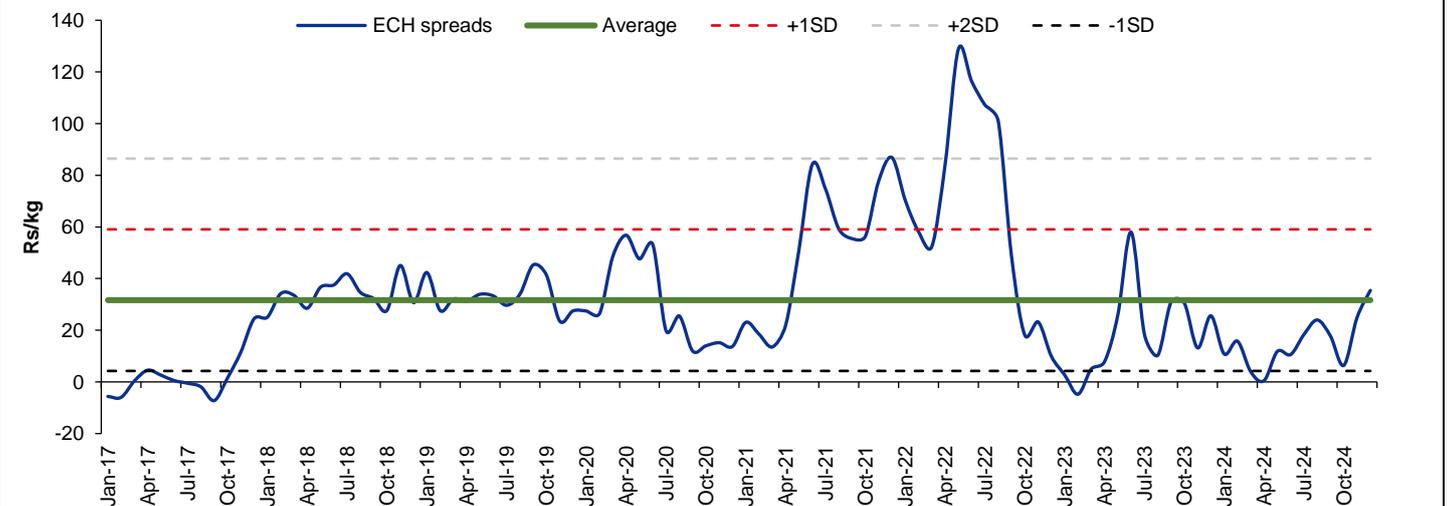
**Figure 4: ECH spreads (through the glycerine route) are below the eight-year average and we believe that, given the oversupply of the product and the slowdown in epoxy demand, they may remain depressed**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**However, as petrochemicals remain in oversupply, leading to a decline in propylene prices, ECH's spreads over propylene will rise, exerting pressure on overall prices ➤**

**Figure 5: With power costs being roughly the same for the propylene and glycerine methodologies, rising spreads in the propylene route spell bad news for manufacturing through the glycerine route**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

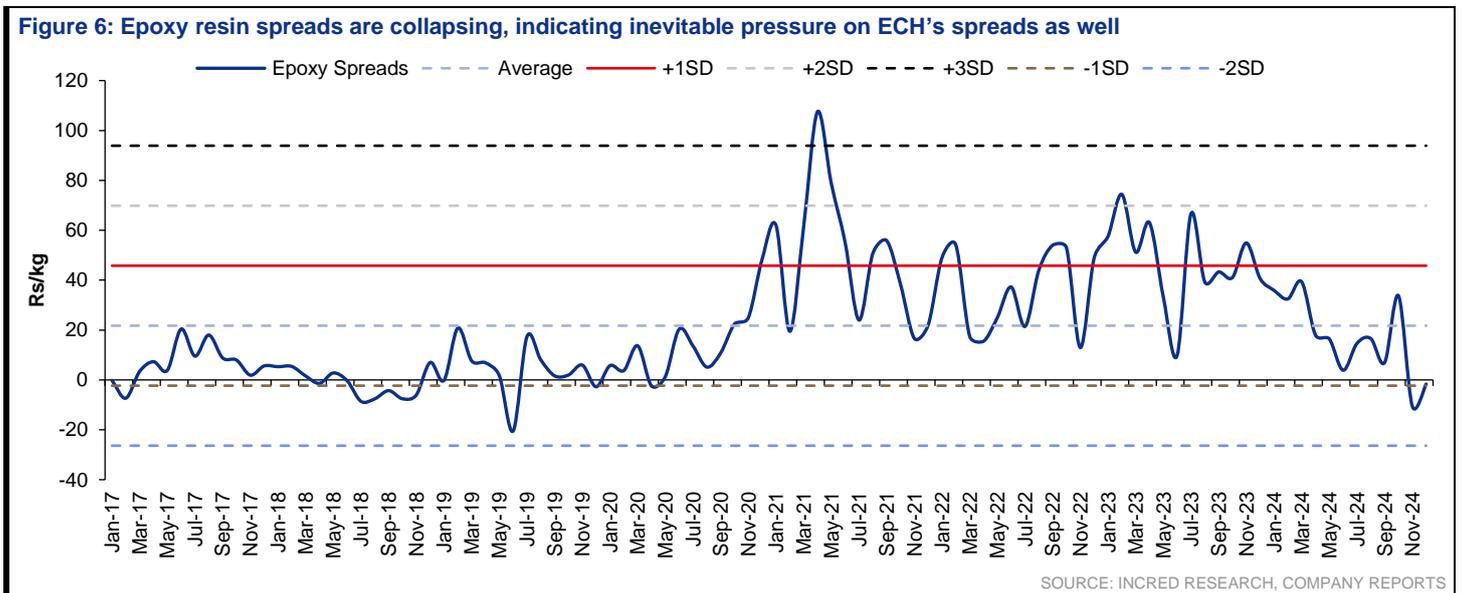
**ECH is primarily used in epoxy resins, whose demand is currently witnessing a slowdown ▶**

ECH (epichlorohydrin) is a key raw material in the production of epoxy resins. With global epoxy resin capacity exceeding demand, as we noted earlier, the market for ECH is also under pressure. A slowdown in epoxy resin demand, driven by weak construction, automotive, and electronics sectors, particularly in China and other major markets, directly impacts ECH consumption.

The oversupply in epoxy resins creates a ripple effect, reducing the margin for ECH producers. Additionally, the increased adoption of glycerine-based ECH production method, like those employed by Epigral in India, adds more capacity, further exacerbating the oversupply situation.

**The slowdown in epoxy resin demand is leading to a decline in epoxy resin gross margin per kg, which will, in turn, result in a drop in ECH prices ▶**

**Figure 6: Epoxy resin spreads are collapsing, indicating inevitable pressure on ECH’s spreads as well**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Chlorotoluene - multiple new capacities coming online, which is negative for Epigral

There are multiple new capacities coming online in the chlorotoluene space. Epigral's 15k capacity in India will be coming online alongside Aarti Industries' new capacity. Please note that for both companies, the market is assuming sales equal to N times the capex, but the Indian import substitution market for chlorotoluene is only 3,000–4,000t.

### Chlorotoluene has multiple usage ►

Chlorotoluenes are a group of chemical compounds that are widely used as intermediates in the production of various industrial and consumer products. Here are some of their applications:

1. **Agricultural chemicals:** They are used in the synthesis of herbicides, pesticides, and fungicides.
2. **Pharmaceuticals:** Chlorotoluene serves as an intermediate in the production of certain pharmaceuticals.
3. **Dyes and pigments:** They are used in the manufacture of dyes and pigments for textiles and inks.
4. **Polymers and resins:** These compounds are utilized in the production of polymers and resins, which are used in coatings and adhesives.
5. **Specialty chemicals:** Chlorotoluene is employed in the synthesis of fine chemicals and specialty chemicals

### There are three kinds of chlorotoluene - ortho, para and meta ►

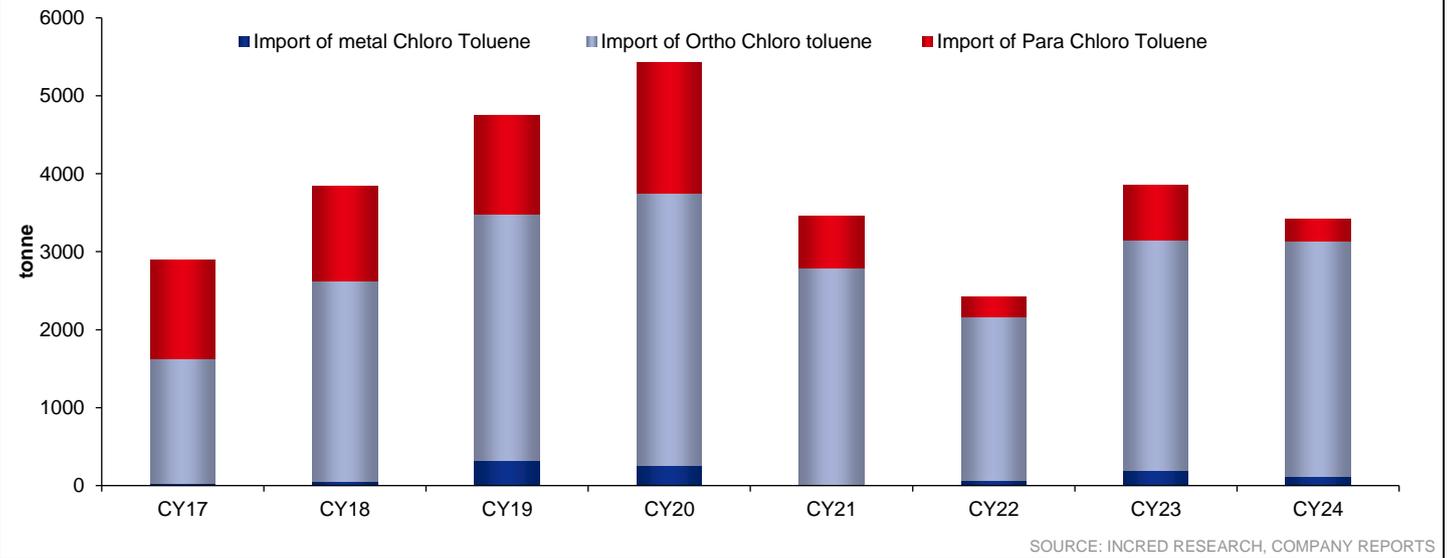
Ortho, meta, and para refer to the positions of substituents on a benzene ring. In the case of toluene (methylbenzene), these terms can describe the locations of additional functional groups attached to the benzene ring.

1. **Ortho (o-) toluene:** This refers to a compound where a second substituent is attached to the carbon atoms adjacent to the carbon where the methyl group is located (the 1 and 2 positions).
2. **Meta (m-) toluene:** In this case, the second substituent is located on the carbon atom that is one carbon away from the methyl-substituted carbon (the 1 and 3 positions).
3. **Para (p-) toluene:** Here, the second substituent is situated directly opposite the methyl group on the benzene ring (the 1 and 4 positions).

These positional isomers can exhibit different chemical properties and reactivities due to the varying steric and electronics associated with their arrangements. In the chemical reaction to manufacture these isomers form in different quantities. The most prevalent chlorotoluene is ortho toluene.

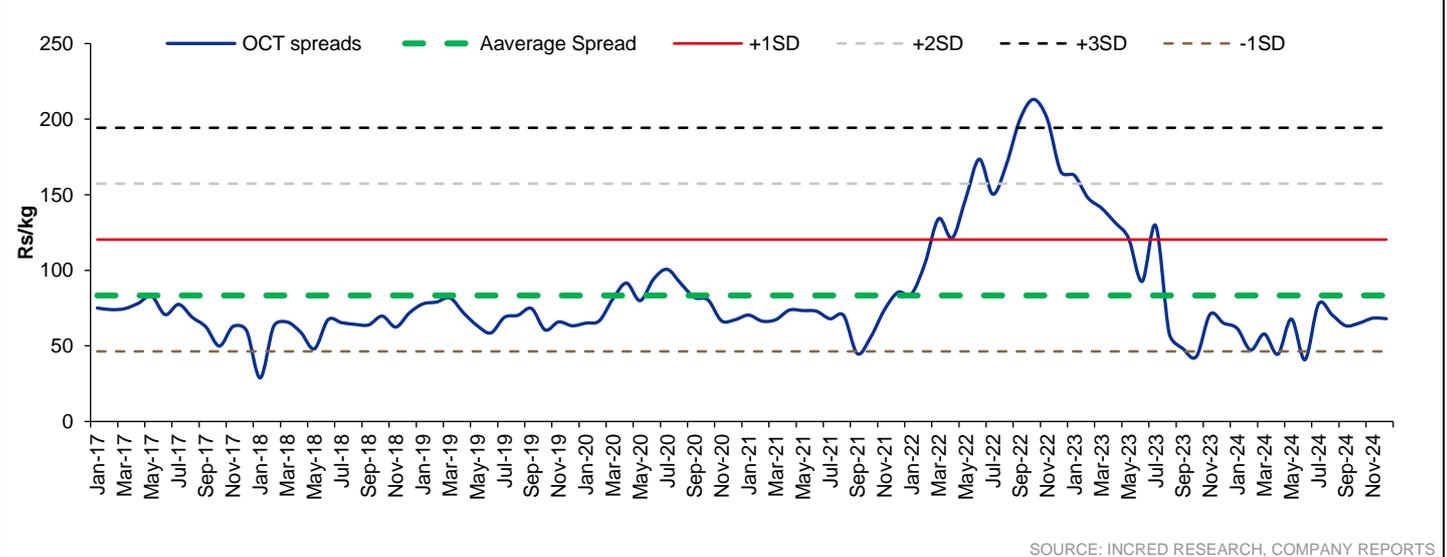
**Indian imports of ortho, meta and para toluene is small ▶**

**Figure 7: Overall, India's imports of chlorotoluene were limited to 3,200t in CY24; therefore, most of the new capacity from Epigral and Aarti Industries will serve only the export market**



**At the same time, chlorotoluene's spreads over its raw material are falling ▶**

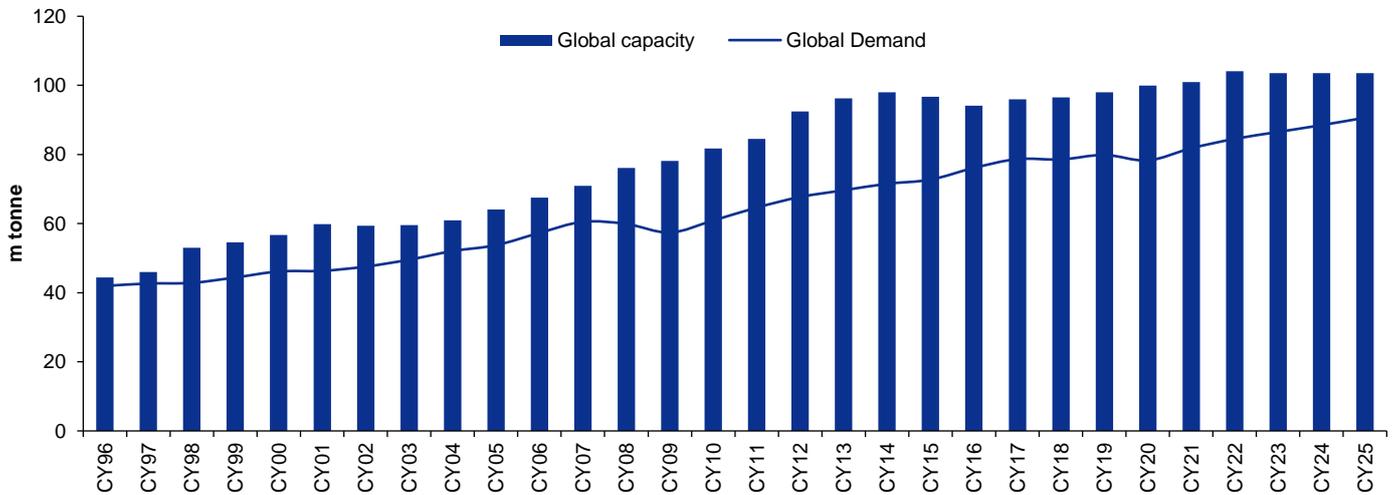
**Figure 8: Like all commodities, chlorotoluene also experienced a post-Covid flare-up in spreads, which has since fizzled out**



## Caustic soda can remain strong for long

### Globally, caustic soda faces huge overcapacity ➤

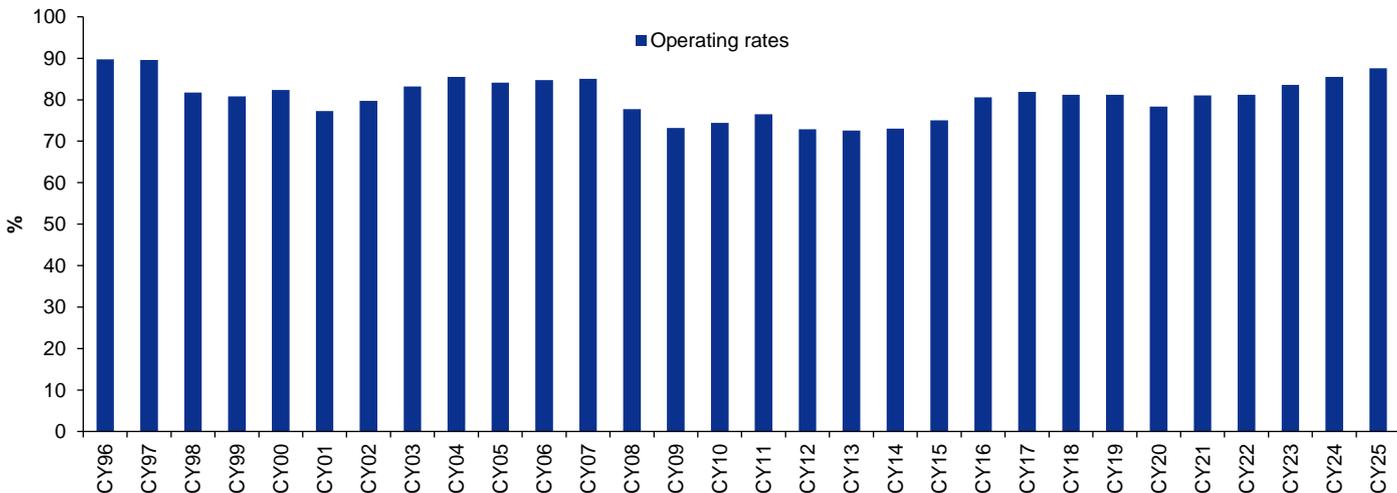
Figure 9: As usual, caustic soda faces huge overcapacity



SOURCE: COMPANY REPORTS, INCRED RESEARCH

The global operating rate depends upon usage of chlorine, but please note that global slowdown leads to lower chlorine usage and hence, lower operating rates ➤

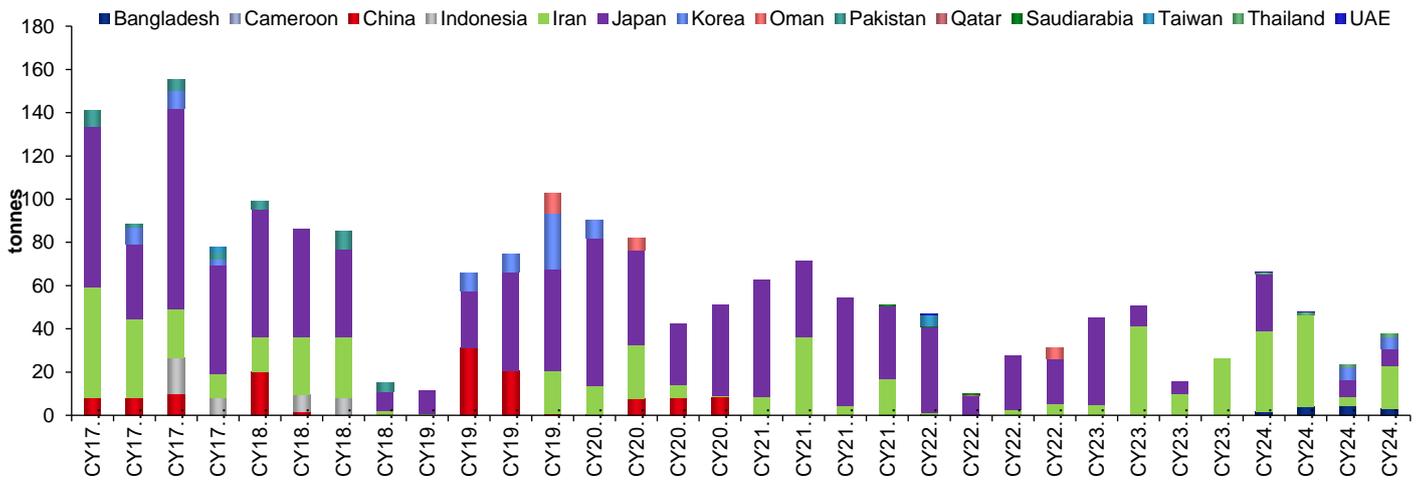
Figure 10: Global operating rates will improve in the coming period



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Indian imports of caustic soda fell in 2023 and 2024**

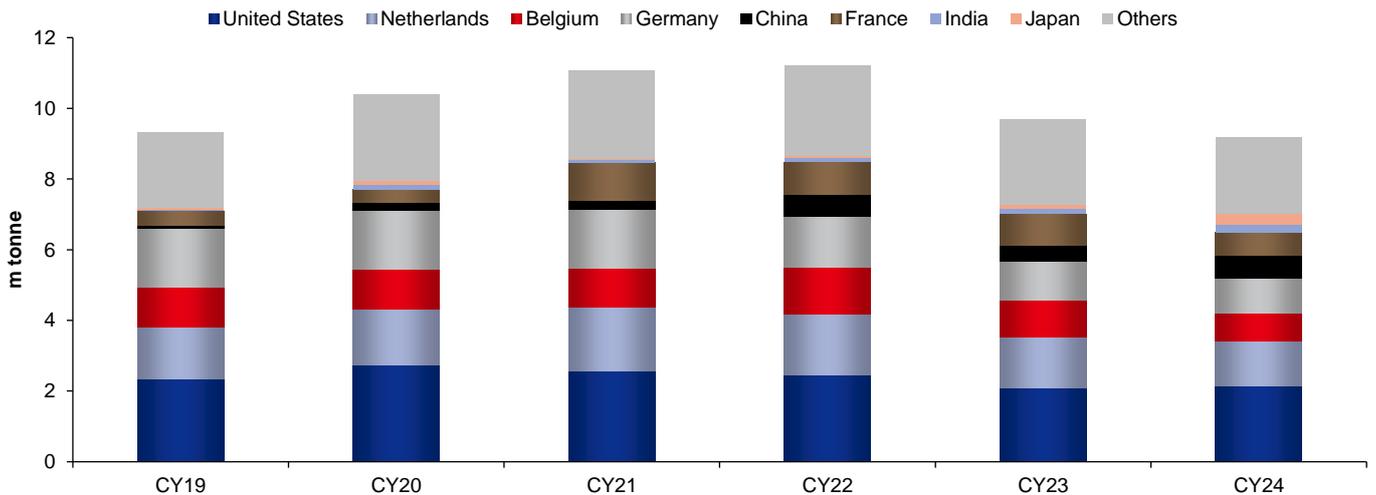
**Figure 11: Collapse of imports from Japan and Iran led to rising prices in India**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Global exports declined; however, lower energy prices and even a mild cyclical recovery will lead to increased exports**

**Figure 12: Lower German and European exports led to the rise in caustic soda prices**



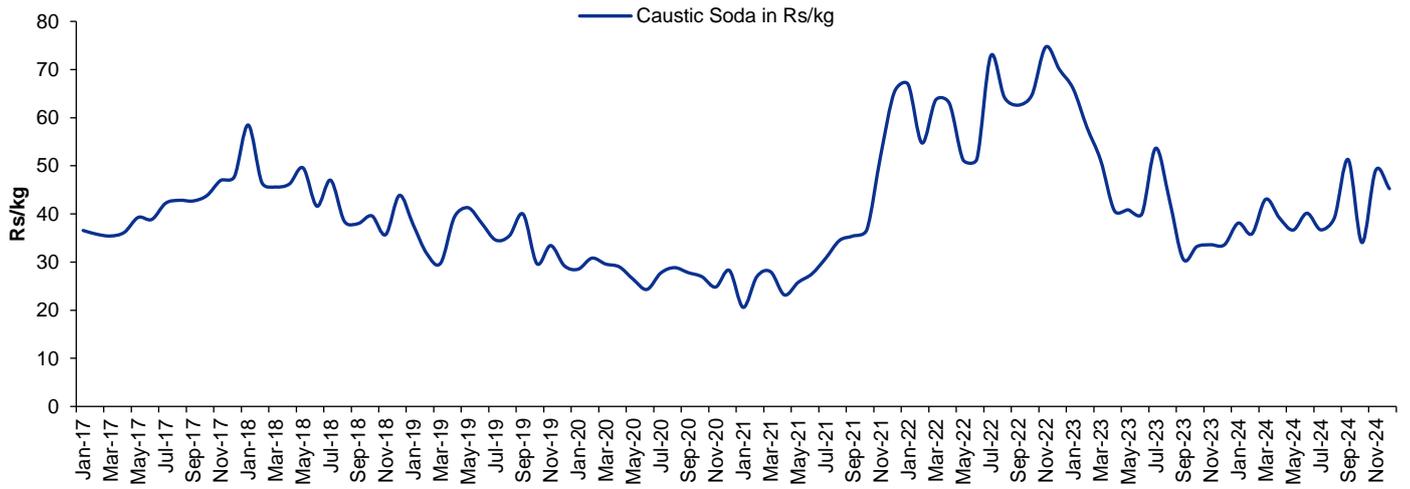
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Remember, Germany cannot replace Russian gas fully by LNG and it lacks LNG terminals and at the same time, reverse flow in the European gas grid is not possible. This leads us to believe that German caustic soda exports are unlikely to recover in the near term. However, overall global supply is likely to go up from increased Chinese and Indian capacities

**At the same time, we believe that caustic can remain elevated from its historical level for a long time**

While the prices level of Rs70/kg is not possible to come by; however, price level of Rs30/kg is also unlikely in the Indian market. We expect the prices to remain around Rs40/kg for the next two-to-three years.

Figure 13: Caustic soda prices can stabilize around Rs40/kg for a sustained period



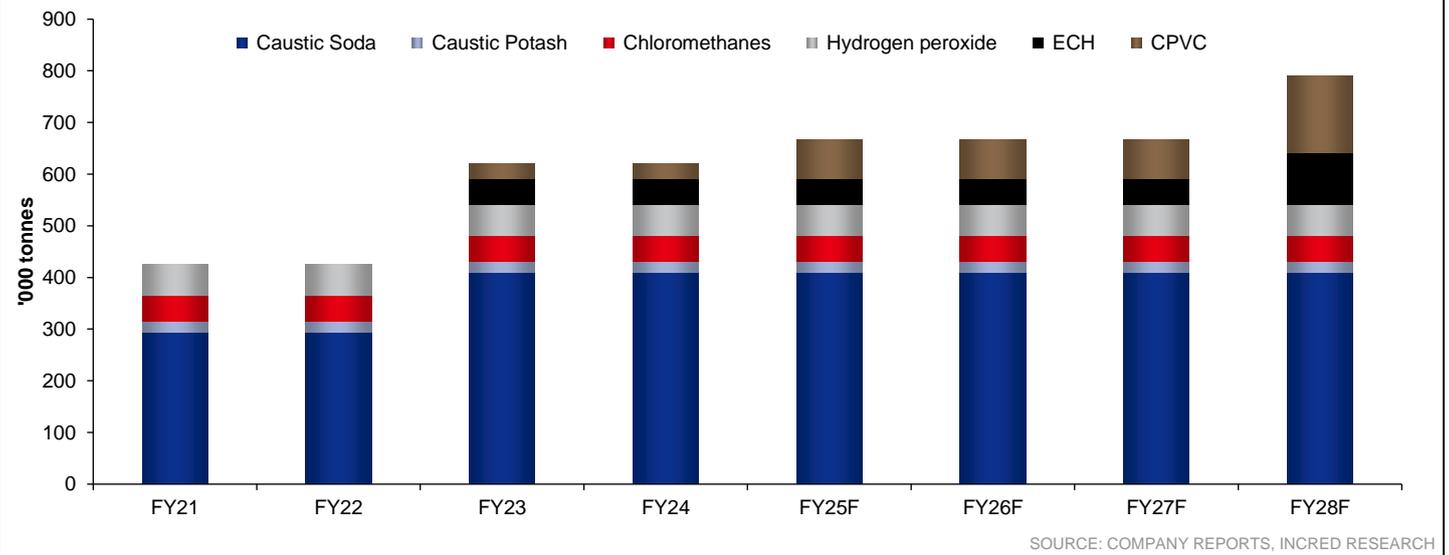
SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Earnings and valuation

While gross margin may decline, we do not anticipate any significant drop in gross profit per kg. However, higher depreciation and interest costs will keep the overall EPS under pressure. We do not foresee any EPS growth for the next couple of years, indicating that the company is becoming ex-growth. Although we assign a P/E multiple of 20, the stock could face a derating going ahead as earnings growth becomes increasingly difficult to achieve.

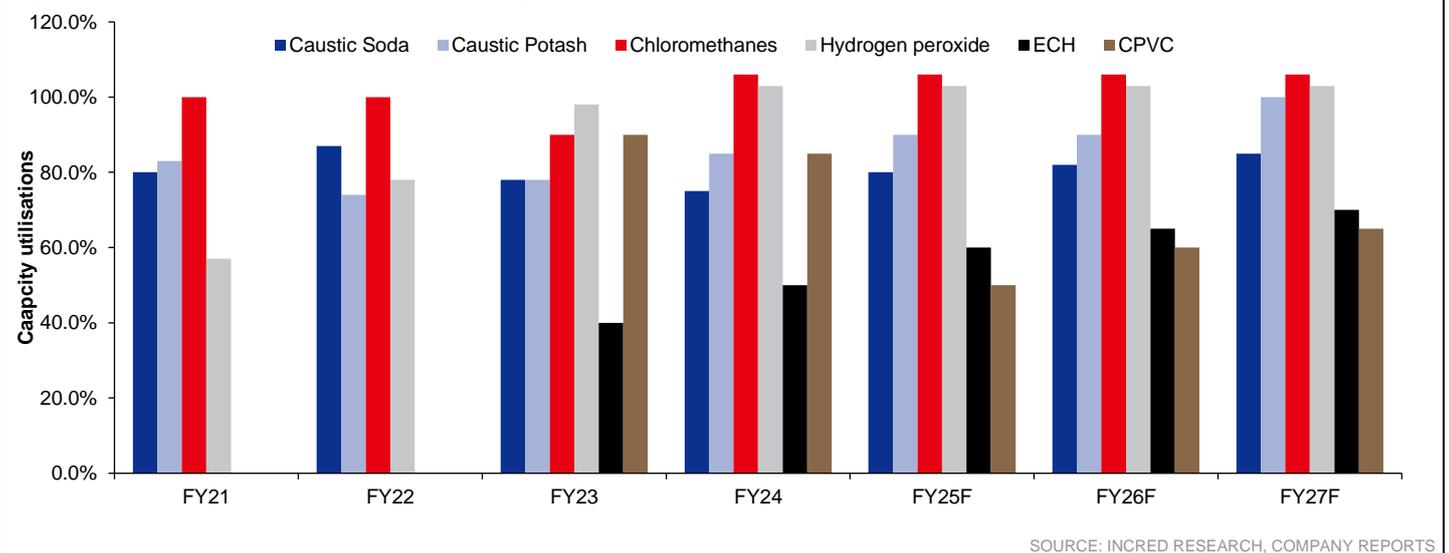
### Epigral is investing in building new capacity ➤

Figure 14: Epigral is investing Rs0.7bn to build new CPVC and ECH capacities



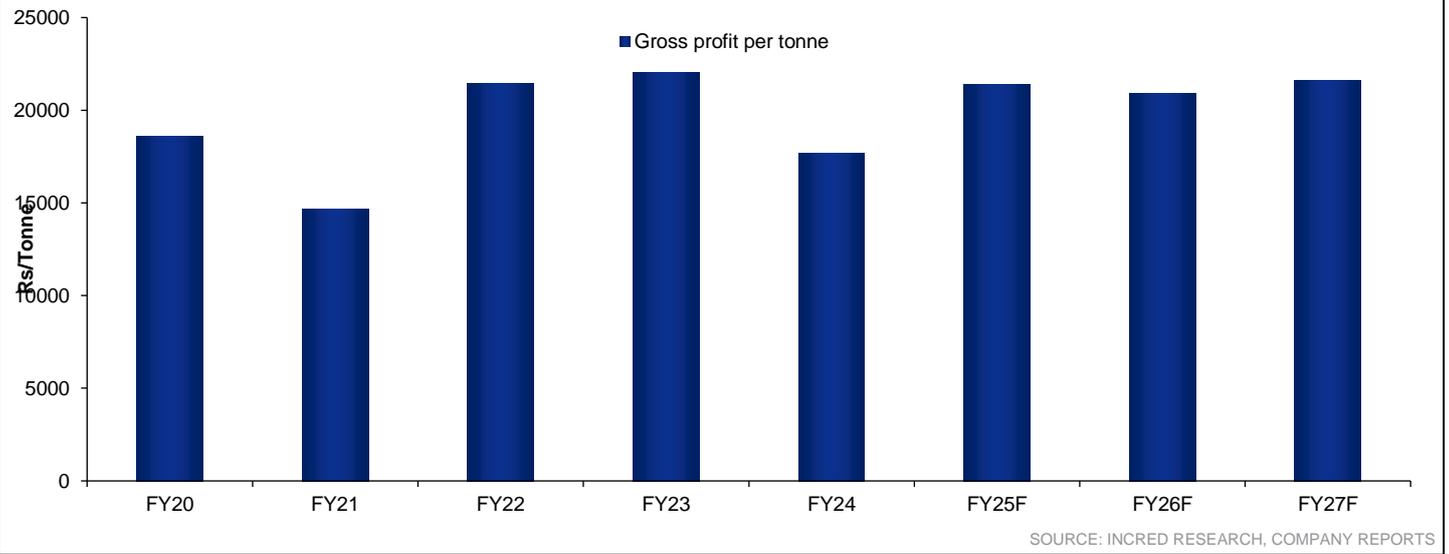
### Rise in capacity utilization will be gradual ➤

Figure 15: However, capacity utilization will be gradual as demand to catch up slowly



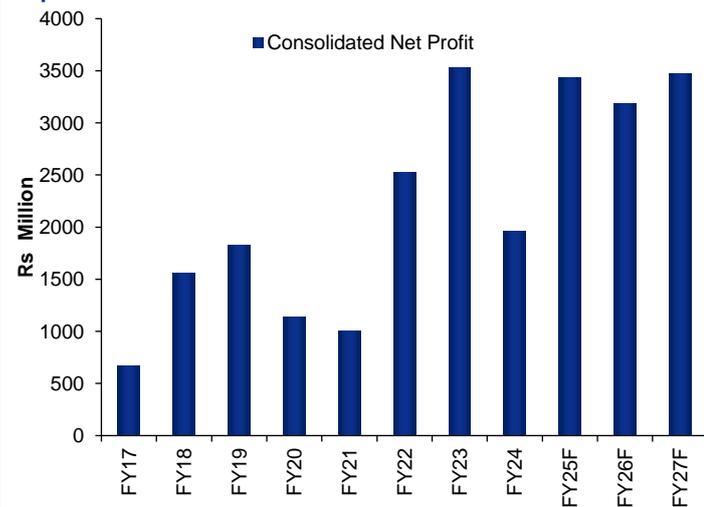
**Gross profit/tonne to remain stable as the fall in caustic soda to be counterbalanced by the rise in other products' margins ➤**

**Figure 16: Gross profit per tonne is likely to remain stagnant**

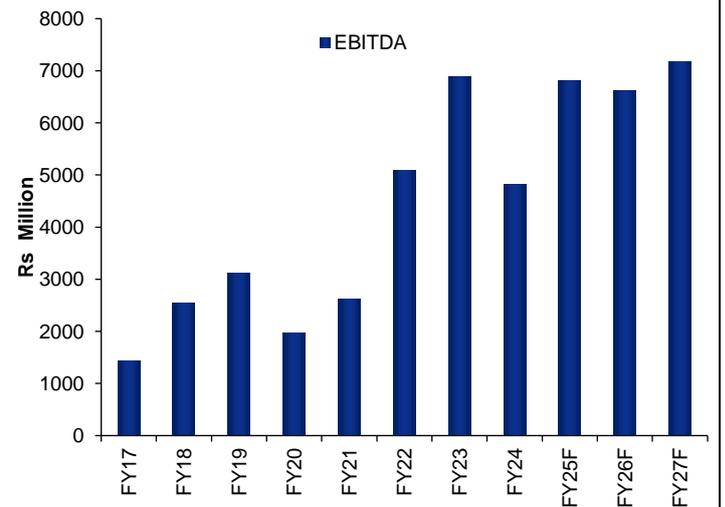


**Higher depreciation will lead to stagnant EPS ➤**

**Figure 17: Net profit is likely to decline a bit because of higher depreciation**



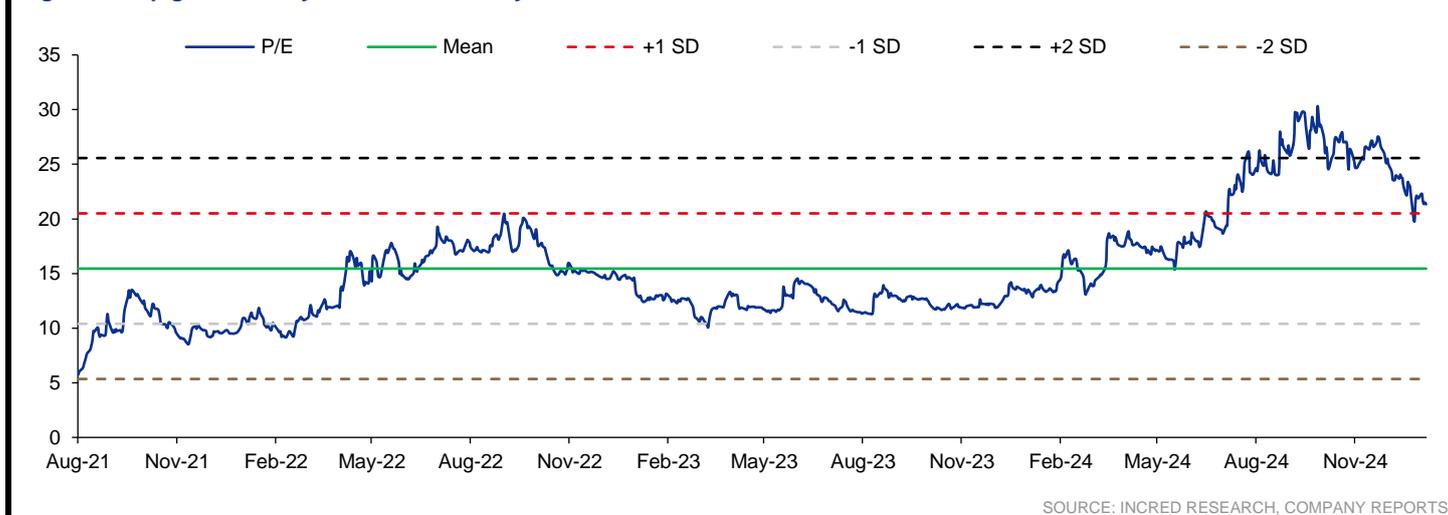
**Figure 18: However, EBITDA is likely to increase at a 3% CAGR over FY25F-27F**



**Stock normally trades at 15x one-year forward P/E ➤**

Epigral normally trades at 15x one-year forward EPS. We valued the stock at the same level, at FY27F EPS, to arrive at our target price of Rs1,206. We downgrade the stock's rating to HOLD (from ADD).

Figure 19: Epigral normally trades at 15x one-year forward P/E



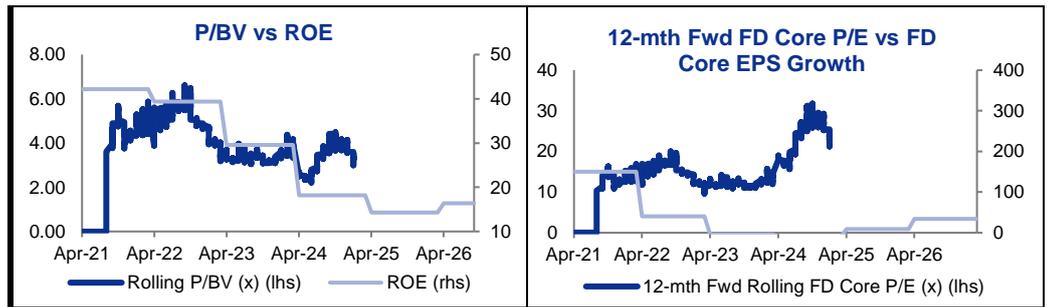
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 20: With the stock turning ex-growth, the P/E derating is likely and hence, we value it at its historical mean to arrive at our target price of Rs1,206

Target price calculation	
FY27F EPS (Rs)	80
P/E (x)	15
One-year forward target price (Rs)	1,206

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>Total Net Revenues</b>	21,884	25,168	25,412	27,292	33,768
<b>Gross Profit</b>	10,736	11,326	11,435	12,281	14,858
<b>Operating EBITDA</b>	6,889	6,809	6,625	7,167	8,830
Depreciation And Amortisation	(1,090)	(1,511)	(1,668)	(1,824)	(1,929)
<b>Operating EBIT</b>	5,800	5,298	4,957	5,343	6,901
Financial Income/(Expense)	(655)	(769)	(769)	(769)	(769)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	80	65	65	65	65
<b>Profit Before Tax (pre-EI)</b>	5,225	4,594	4,253	4,639	6,196
Exceptional Items					
<b>Pre-tax Profit</b>	5,225	4,594	4,253	4,639	6,196
Taxation	(1,692)	(1,158)	(1,072)	(1,169)	(1,561)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	3,533	3,436	3,181	3,470	4,635
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	3,533	3,436	3,181	3,470	4,635
Recurring Net Profit	3,533	3,436	3,181	3,470	4,635
<b>Fully Diluted Recurring Net Profit</b>	3,533	3,436	3,181	3,470	4,635

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	6,889	6,809	6,625	7,167	8,830
Cash Flow from Invt. & Assoc.					
Change In Working Capital	408	(384)	(35)	(269)	(928)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(41)	(11)			
Other Operating Cashflow	735	(1,162)	835	835	835
Net Interest (Paid)/Received	(655)	(769)	(769)	(769)	(769)
Tax Paid	(1,075)	(505)	(1,072)	(1,169)	(1,561)
<b>Cashflow From Operations</b>	6,262	3,977	5,583	5,794	6,405
Capex	(4,165)	(3,984)	(3,000)	(3,000)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(208)	(27)			
<b>Cash Flow From Investing</b>	(4,372)	(4,011)	(3,000)	(3,000)	(2,000)
Debt Raised/(repaid)	(528)	1,460			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(242)	(251)			
Preferred Dividends					
Other Financing Cashflow	(1,228)	(1,285)	(769)	(769)	(769)
<b>Cash Flow From Financing</b>	(1,998)	(76)	(769)	(769)	(769)
Total Cash Generated	(108)	(110)	1,814	2,025	3,636
<b>Free Cashflow To Equity</b>	1,362	1,426	2,583	2,794	4,405
<b>Free Cashflow To Firm</b>	2,544	735	3,353	3,564	5,175

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Total Cash And Equivalents	151	68	4,488	6,513	10,149
Total Debtors	1,663	1,788	2,355	2,529	3,129
Inventories	2,118	2,630	3,464	3,721	4,603
Total Other Current Assets	262	534	534	534	534
<b>Total Current Assets</b>	<b>4,194</b>	<b>5,019</b>	<b>10,841</b>	<b>13,296</b>	<b>18,415</b>
Fixed Assets	19,622	22,495	27,145	28,321	28,392
Total Investments	206	206	206	206	206
Intangible Assets					
Total Other Non-Current Assets	300	223	223	223	223
<b>Total Non-current Assets</b>	<b>20,128</b>	<b>22,924</b>	<b>27,574</b>	<b>28,750</b>	<b>28,821</b>
Short-term Debt	3,315	4,156	4,156	4,156	4,156
Current Portion of Long-Term Debt					
Total Creditors	1,102	1,653	2,177	2,338	2,893
Other Current Liabilities	2,060	1,986	1,986	1,986	1,986
<b>Total Current Liabilities</b>	<b>6,476</b>	<b>7,796</b>	<b>8,320</b>	<b>8,481</b>	<b>9,036</b>
Total Long-term Debt	5,446	5,470	5,470	5,470	5,470
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	13	1	1	1	1
<b>Total Non-current Liabilities</b>	<b>5,460</b>	<b>5,471</b>	<b>5,471</b>	<b>5,471</b>	<b>5,471</b>
Total Provisions	1,695	2,135	2,135	2,135	2,135
<b>Total Liabilities</b>	<b>13,631</b>	<b>15,402</b>	<b>15,927</b>	<b>16,088</b>	<b>16,643</b>
Shareholders Equity	10,692	12,541	22,488	25,958	30,593
Minority Interests					
<b>Total Equity</b>	<b>10,692</b>	<b>12,541</b>	<b>22,488</b>	<b>25,958</b>	<b>30,593</b>

<b>Key Ratios</b>					
	<b>Mar-23A</b>	<b>Mar-24A</b>	<b>Mar-25F</b>	<b>Mar-26F</b>	<b>Mar-27F</b>
Revenue Growth	41.1%	15.0%	1.0%	7.4%	23.7%
Operating EBITDA Growth	35.2%	(1.2%)	(2.7%)	8.2%	23.2%
Operating EBITDA Margin	31.5%	27.1%	26.1%	26.3%	26.1%
Net Cash Per Share (Rs)	(207.23)	(221.57)	(119.11)	(72.18)	12.09
BVPS (Rs)	257.30	290.69	521.27	601.70	709.13
Gross Interest Cover	8.85	6.89	6.44	6.94	8.97
Effective Tax Rate	32.4%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Accounts Receivables Days	35.25	25.02	29.75	32.65	30.58
Inventory Days	59.91	62.60	79.58	87.35	80.33
Accounts Payables Days	32.46	36.32	50.01	54.90	50.49
ROIC (%)	21.9%	19.0%	15.4%	13.5%	16.6%
ROCE (%)	29.6%	23.4%	17.0%	14.9%	17.3%
Return On Average Assets	17.5%	15.4%	11.3%	10.1%	11.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.