

TATA MOTORS

Domestic operations drags, JLR steady

India Equity Research | Automobiles

Tata Motors' (TTMT) Q1FY14 consolidated adjusted PAT at INR19.04bn, (down 29% YoY, 49% QoQ) was 5% below our estimate of INR20.5bn. While consolidated EBITDA/PBT was ahead of our estimates by 9.1%/7.3%, PAT was marginally lower due to higher tax rate. Within entities, JLR reported EBITDA margins at 16.5%, ahead of our estimated 15%, driven by higher than expected capitalization, while EBITDA margins for the standalone entity at 2.3%, were in line with our estimates. The quarter also witnessed a dividend of GBP150mn from JLR to the standalone entity, which led to the company reporting a PAT of INR7bn against our estimate of INR5.7bn loss. We remain positive on JLR business driven by exciting launch pipeline, while continuing to build in a recovery in the domestic CV business. We maintain our earnings estimates, TP INR347 and recommend a 'BUY' on the stock.

Domestic business in line; JLR outperforms on higher capitalisation

While domestic operations remained weak in the quarter, profitability was helped by a GBP150mn dividend from JLR, eliminating which, standalone business reported a loss of INR7.2bn against our estimated INR5.7bn loss. JLR reported revenue increase of 12.6% driven by 8.6% increase in volumes and balance on higher realizations. EBITDA margins of 16.5% (14.5% in Q1FY13) were ahead of our estimated 15%, with the beat largely on account of higher capitalization and lower other expenses. However, a higher tax rate (37.5%) led to PAT being in line despite higher EBITDA/PBT.

Weak cash flow in JLR in quarter to reverse

Operating cash flow for JLR in the quarter was subdued at GBP116mn due to increase in working capital in build-up of inventory ahead of its new launch (new Range Rover Sport). In the domestic business, we expect the CV cycle to pick up in H2FY14 on the back of good monsoon/pick up in mining, which will aid margin expansion in FY15.

Outlook and valuations: Gearing up; maintain 'BUY'

We remain positive on JLR for its healthy pipeline of new refreshes/variants in JLR and expected recovery in the CV cycle in H2FY14. We maintain our earnings and TP (INR347) and our 'BUY/Sector Performer' recommendation/rating'.

Financials (Consolidated)

(INR bn)

Year to March	Q1FY14	Q1FY13	% change	Q4FY13	% change	FY13	FY14E	FY15E
Net revenues	468	433	8.0	560	(16.5)	1,888	2,118	2,473
EBITDA	68	62	8.3	83	(18.9)	266	277	325
Adj. profit after min.	19	27	(29.5)	39	(48.8)	105	98	108
Diluted adj. EPS (INR)						31.4	29.4	32.4
Diluted P/E (x)						9.7	10.3	9.4
EV/EBITDA (x)						4.1	4.1	3.5
ROAE (%)						29.5	23.4	21.1

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

MARKET DATA (R: TAMO.BO, B: TTMT IN)

CMP	: INR 279
Target Price	: INR 347
52-week range (INR)	: 337 / 219
Share in issue (mn)	: 2,694.1
M cap (INR bn/USD mn)	: 811/ 13,745
Avg. Daily Vol.BSE/NSE('000)	: 10,121.7

SHARE HOLDING PATTERN (%)

	Current	Q4FY13	Q3FY13
Promoters *	34.7	34.7	34.7
MF's, FI's & BK's	10.8	10.8	11.8
FII's	28.1	28.1	28.7
Others	26.4	26.4	24.8
* Promoters pledged shares (% of share in issue)			2.1

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	(5.8)	(5.9)	4.6
3 months	(6.5)	(8.7)	2.1
12 months	16.8	3.4	25.5

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Q1FY14 results: JLR at full throttle

Standalone: Numbers were broadly in line with our expectation. Domestic business reported EBITDA margins of 2.3% against our estimate of 2%, while the revenues were higher than our estimate by 4%, resulting in EBITDA of INR2.1bn versus our estimate of INR1.8bn. The company received dividend of GBP150mn from JLR, which helped it report a net profit of INR7bn (including forex losses of INR1.5bn). Ex-dividend and forex loss, the company reported a net loss of INR7.2bn versus our estimate of INR5.7bn.

JLR: EBITDA margin at 16.5% was ahead of our estimate of 15%. Total revenue at GBP4.1bn was higher 12.6% YoY and down 18.9% largely due to higher volumes (up 8.6% YoY). EBITDA margins expanded YoY from 14.5%, largely on account of product mix and softer commodity prices, which were, however, offset by higher other expenditure. Depreciation increased sharply from GBP121mn in Q1FY13 to GBP202mn in Q1FY14, driven by newer product launches. PAT and PBT accordingly were up 11% each YoY.

Consolidated: Adjusted PAT at INR19bn (down 29% YoY and 49% QoQ) was in line with our estimate despite a beat on JLR front due to higher tax rate (which was due to consolidation). Revenues were up 8% and down 16% QoQ, while EBITDA margins at 14.4%, were largely steady with Q1FY13 (14.4%) and Q4FY13 (14.9%).

Table 1: Valuations

	FY12	FY13	FY14E	FY15E	Per share valuation
EBITDA					
Standalone	41,775	17,108	24,192	46,020	
Jaguar Land Rover	138,102	157,760	169,962	183,184	
EV/EBITDA Multiple					
Standalone				7.5	
Jaguar Land Rover				4.5	
EV/EBITDA Multiple					
Standalone				345,151	108
Jaguar Land Rover				824,330	256
Total Enterprise Value				1,169,481	364
Less: Net Automotive Debt	82,152	90,139	110,821	76,515	24
Equity Value of Automotive business				1,092,965	341
Add: Value of other subsidiaries (at 30% discount to FY12 book value)				20,779	6
Equity value				1,113,744	347

Source: Edelweiss research

Table 2: Edelweiss Vs consensus (Consolidated)

(INR mn)

Particulars	FY14E			FY15E		
	Edel	Consenses	% var	Edel	Consenses	% var
Sales	2,136,579	2,190,000	(2.4)	2,379,484	2,460,000	(3.3)
EBITDA	294,691	304,124	(3.1)	347,763	344,250	1.0
EBITDA (%)	13.8	13.9		14.6	14.0	
Adj. PAT	125,027	125,438	(0.3)	142,671	146,055	(2.3)
EPS	36.9	39.0	(5.4)	42.1	45.4	(7.2)

Source: Bloomberg, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q1FY14	Q1FY13	% change	Q4FY13	% change	FY13	FY14E	FY15E
Total operating income	467,847	433,236	8.0	560,016	(16.5)	1,888,176	2,136,579	2,379,484
Raw material	288,855	277,495	4.1	351,791	(17.9)	1,203,211	1,347,110	1,480,051
Staff costs	44,612	37,897	17.7	44,224	0.9	165,841	172,058	191,239
Expenses capitalized	28,110	26,095	7.7	22,911	22.7	101,920	109,879	106,557
Other expenses	94,956	81,594	16.4	103,619	(8.4)	375,572	432,599	466,988
Total expenditure	400,313	370,891	7.9	476,722	(16.0)	1,642,703	1,841,887	2,031,722
EBITDA	67,533	62,345	8.3	83,294	(18.9)	245,473	294,691	347,763
Depreciation & amortization	28,818	20,456	40.9	28,670	0.5	75,693	88,097	114,440
Other income (Excluding forex gain)	1,823	2,386	(23.6)	1,775	2.7	8,115	9,086	9,971
Interest	9,482	8,044	17.9	9,670	(1.9)	35,533	38,972	43,490
Profit before tax	31,056	36,231	(14.3)	46,729	(33.5)	142,362	176,708	199,804
Tax	11,642	8,688	34.0	8,827	31.9	37,710	51,920	57,476
Core profit	19,414	27,543	(29.5)	37,902	(48.8)	104,652	124,788	142,328
Minority interest	(198)	(276)	NA	(178)	NA	301	239	343
Share in profit from associates	(169)	(414)	NA	1,517	NA	-	-	-
Profit after tax and min. int.	19,047	26,853	(29.1)	39,240	(51.5)	104,953	125,027	142,671
Net profit	17,261	22,448	(23.1)	39,455	(56.3)	98,926	125,027	142,671
Forex (gains)/loss	(1,786)	(4,405)	NA	215	NA	(6,027)	-	-

As % of net revenues

Raw material	61.7	64.1		62.8		63.7	63.0	62.2
Employee cost	9.5	8.7		7.9		8.8	8.1	8.0
Other expenses	20.3	18.8		18.5		19.9	20.2	19.6
EBITDA	14.4	14.4		14.9		13.0	13.8	14.6
Adjusted net profit	4.1	6.4		6.8		5.5	5.8	6.0
Tax rate	37.5	24.0		18.9		26.5	29.4	28.8

Company Description

TTMT is India's largest automobile company with a presence in commercial and passenger vehicles. It is the leader in nearly all commercial vehicle segments and the third largest in the passenger vehicles market with products in the compact and mid size car and utility vehicle segments. Through subsidiaries and associate companies, the company has operations in the UK, South Korea, Thailand and Spain. Among them is Jaguar Land Rover, the business comprising two iconic British brands. It also has an industrial joint venture with Fiat in India. It is also the world's fourth largest truck manufacturer and the second largest bus manufacturer. TTMT cars, buses and trucks are being marketed in several countries in Europe, Africa, the Middle East, South Asia, South East Asia and South America.

Investment rationale

A strong performance in Q4FY13 and healthy pipeline of new refreshes/variants augur well for FY14E/FY15E margins. We also believe that the CV cycle will turn positive in H2FY14, which will further support margins for TTMT.

Key Risks

Failure of new launches

JLR is planning a slew of launches. If the response is worse (due to lack of product acceptance or weaker macros) than anticipated, it may result in volumes and margin squeeze.

Large penalties from emission norms

We have not been able to assess the impact of penalties from emission norms impacting JLR. If the penalties are high, it may impact stock performance

Domestic CV cycle

TTMT is India's largest and dominant CV manufacturer. India's CV industry is currently in a downturn with a sharp dip in volumes on account of rising fuel costs and non-responsive freight rates. While we are expecting an uptick in mid FY14, any further delay in expected recovery can present downsides to our earnings / valuation estimates.

Financial Statements

Key Assumptions

Year to March	FY12	FY13	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.2	5.0	5.6	6.5
Inflation (Avg)	8.9	7.4	5.2	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	48.0	54.5	58.0	56.0
Sector				
Cars - domestic vol. (% YoY)	2.0	(6.8)	6.0	12.0
MHCV - domestic vol (% YoY)	8.2	(23.2)	1.0	12.0
Steel prices (INR/t)	38,500	39,200	39,200	39,200
Aluminium prices (USD/t)	2,316	2,300	2,400	2,400
Company				
Revenue assumptions				
Domestic vol growth (% YoY)				
Cars - domestic vol. (% YoY)	4.3	(28.8)	(26.0)	6.3
MHCV - domestic vol (% YoY)	7.7	(30.7)	0.5	10.5
LCV - dom. vol. (% YoY)	28.1	21.5	10.0	18.5
Domestic avg. realisation (INR)	599,174.8	544,843.4	568,709.0	581,018.3
Domestic avg. realisation (% YoY)	1.3	(9.1)	4.4	2.2
JLR sales volume (Nos)				
Jaguar	54,039	57,812	79,235	89,269
Land Rover (ex-Evoque)	200,177	197,959	226,689	261,925
Evoque	60,217	116,291	110,476	110,476
Cost assumptions				
RM cost/vehicle	437,759	405,825	414,039	404,665
Employee cost/vehicle	29,674	34,926	36,883	37,719
Average salary	921,193	971,010	1,038,981	1,142,879
Promotion cost (% revenue)	1.9	1.9	2.4	2.4
EBITDA/vehicle	46,059	21,061	30,396	50,557
Financial assumptions				
Average Interest rate (%)	7.5	7.1	7.1	7.5
Average Depreciation rate (%)	7.0	8.0	8.0	8.5
Tax rate (%)	(0.3)	26.5	29.4	28.8
Dividend payout ratio (%)	117.7	253.6	94.2	31.4
Balance sheet assumptions				
Net borrowings (INR mn)	143,384	64,424	33,000	24,000
Capex (INR mn)	228,052	209,471	291,166	215,550
Debtor days	16	19	21	21
Inventory days	50	55	56	56
Payable days	101	115	119	118
Cash conversion cycle (days)	(34)	(41)	(43)	(41)

Income statement

(INR mn)

Year to March	FY12	FY13	FY14E	FY15E
Income from operations	1,656,545	1,888,176	2,136,579	2,379,484
Materials costs	1,094,676	1,203,211	1,347,110	1,480,051
Manufacturing expenses	78,003	88,910	99,360	111,704
Employee costs	122,985	165,841	172,058	191,239
Total SG&A expenses	219,855	286,661	333,239	355,285
Expenses capitalised	82,660	101,920	109,879	106,557
Total operating expenses	1,432,859	1,642,703	1,841,887	2,031,722
EBITDA	223,686	245,473	294,691	347,763
Depreciation & Amortization	56,254	75,693	88,097	114,440
EBIT	167,433	169,780	206,594	233,323
Non-Operational Income	6,618	8,115	9,086	9,971
Interest expenses	29,822	35,533	38,972	43,490
Profit before tax	144,228	142,362	176,708	199,804
Provision for tax	(400)	37,710	51,920	57,476
Net profit	144,629	104,652	124,788	142,328
Extraordinary income/ (loss)	(8,315)	(6,027)	-	-
Profit After Tax	144,054	104,953	125,027	142,671
Minority interest	(574)	301	239	343
Profit after minority interest	135,739	98,926	125,027	142,671
Diluted EPS (INR)	42.2	30.8	36.9	42.1
Dividend payout (%)	117.7	253.6	94.2	31.4

Common size metrics

Year to March	FY12	FY13	FY14E	FY15E
Materials costs	66.1	63.7	63.0	62.2
S G & A expenses	8.3	9.8	10.5	10.5
EBITDA margins	13.5	13.0	13.8	14.6
Net profit margins	8.7	5.6	5.9	6.0

Growth ratios (%)

Year to March	FY12	FY13	FY14E	FY15E
Revenues	35.6	14.0	13.2	11.4
EBITDA	33.0	9.7	20.1	18.0
EPS	61.0	(26.9)	19.6	14.3

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13	FY14E	FY15E	
Equity capital	6,347	6,381	6,437	6,437	
Reserves & surplus	325,152	369,992	470,518	571,006	
Shareholders funds	331,499	376,373	476,956	577,443	
Minority interest (BS)	3,071	3,705	4,446	5,335	
Short term debt	107,416	116,122	123,273	128,473	
Long term debt	364,074	419,792	445,641	464,441	
Current maturity of long term	84,449	98,691	104,768	109,188	
Borrowings	471,490	535,914	568,914	592,914	
Deferred tax liability	(23,743)	(24,094)	(24,865)	(24,784)	
Sources of funds	782,317	891,897	1,025,450	1,150,908	
Tangible assets	271,186	249,042	248,899	422,383	
Intangible assets	131,481	185,176	270,048	322,577	
CWIP (incl. intangible)	159,458	260,618	370,556	255,877	
Total net fixed assets	562,125	694,836	889,503	1,000,837	
Goodwill on consolidation	45,452	41,024	29,452	25,123	
Non current investments	13,915	15,154	25,245	35,246	
Cash and equivalents	257,643	286,550	269,881	309,820	
Inventories	182,160	209,690	235,835	253,128	
Sundry debtors	82,368	109,427	131,092	143,873	
Loans and advances	249,951	280,739	298,180	310,346	
Other current assets	14,818	18,556	19,460	20,410	
Total current assets (ex cash)	529,297	618,412	684,568	727,756	
Trade payable	366,863	447,801	497,658	532,302	
Others current liabilities	259,252	316,276	375,540	415,573	
Total current liabilities &	626,116	764,078	873,198	947,875	
Net current assets (ex cash)	(96,819)	(145,666)	(188,631)	(220,119)	
Uses of funds	782,317	891,897	1,025,450	1,150,908	
Book value per share (INR)	104.5	118.0	148.2	179.4	

Free cash flow		(INR mn)			
Year to March	FY12	FY13	FY14E	FY15E	
Net profit	135,739	98,926	108,064	108,025	
Depreciation	56,254	75,693	88,097	114,440	
Gross cash flow	158,273	176,353	256,549	263,553	
Less: Changes in WC	(26,145)	(48,849)	(42,964)	(31,488)	
Operating cash flow	184,417	225,202	299,514	295,041	
Less: Capex	228,052	209,471	291,166	215,550	
Free cash flow	(43,635)	15,730	8,348	79,491	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		EV/EBITDA (X)		Price/BV (X)	
		FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Tata Motors Ltd	13,745	7.6	6.6	4.1	3.4	1.9	1.6
Ashok Leyland	538	9.6	4.5	6.9	4.5	0.7	0.7
Eicher Motors	1,468	20.5	12.6	10.4	5.4	4.1	3.2
Mahindra & Mahindra Ltd	8,656	13.2	11.2	9.0	7.6	2.9	2.4
Median	-	11.4	8.9	8.0	5.0	2.4	2.0
AVERAGE	-	12.7	8.7	7.6	5.2	2.4	2.0

Source: Edelweiss research

Cash flow metrics		FY12	FY13	FY14E	FY15E
Year to March					
Operating cash flow		184,417	225,202	299,514	295,041
Investing cash flow		(147,028)	(204,092)	(293,141)	(216,466)
Financing cash flow		83,865	8,099	(23,343)	(38,636)
Net cash flow		121,255	29,208	(16,970)	39,939
Capex		(228,052)	(209,471)	(291,166)	(215,550)
Dividends paid		(15,031)	(15,031)	(7,516)	(7,516)

Profitability & efficiency ratios

Year to March	FY12	FY13	FY14E	FY15E
ROAE (%)	55.5	29.5	29.2	26.9
ROACE (%)	26.4	21.3	22.5	22.4
Inventory day	50	55	56	56
Debtors days	16	19	21	21
Payable days	101	115	119	118
Cash conversion cycle (days)	(34)	(41)	(43)	(41)
Current ratio	1.3	1.2	1.1	1.1
Debt/EBITDA	2.1	2.2	1.9	1.7
Fixed asset turnover (x)	3.3	3.0	2.7	2.5
Debt/Equity	1.4	1.4	1.2	1.0

Operating ratios

Year to March	FY12	FY13	FY14E	FY15E
Total asset turnover	2.5	2.3	2.2	2.2
Fixed asset turnover	3.3	3.0	2.7	2.5
Equity turnover	6.3	5.3	5.0	4.5

Valuation parameters

Year to March	FY12	FY13	FY14E	FY15E
Diluted EPS (INR)	42.2	30.8	36.9	42.1
Y-o-Y growth (%)	61.0	(26.9)	19.6	14.3
CEPS (INR)	63.3	56.5	66.1	79.8
Diluted PE (x)	6.6	9.0	7.6	6.6
Price/BV (x)	2.7	2.4	1.9	1.6
EV/Sales (x)	0.7	0.6	0.5	0.5
EV/EBITDA (x)	4.9	4.7	4.1	3.4

Additional Data

Directors Data

N N Wadia	Non-Executive Independent Directors	S M Palia	Non-Executive Independent Directors
R A Mashelkar	Non-Executive Independent Directors	S Bhargava	Non-Executive Independent Directors
N Munjee	Non-Executive Independent Directors	V K Jairath	Non-Executive Independent Directors
R Sen	Non-Executive Independent Directors	Cyrus P Mistry	Non-Executive Independent Directors
Ratan N Tata, Chairman	Other Non-Executive Directors	Ravi Kant, Vice Chairman	Other Non-Executive Directors
J J Irani	Other Non-Executive Directors	Ralf Speth	Other Non-Executive Directors
Carl-Peter Forster	Other Non-Executive Directors	Ravindra Pisharody	Executive Directors
Satish Borwankar	Executive Directors		

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
Life Insurance Corp. of India	6.22	Capital Research & Management Co. (World Investors)	4.18
The Vanguard Group, Inc.	1.46	JF Asset Management Ltd.	0.95
FIL Investment Management (Hong Kong) Ltd.	0.79	Capital Research & Management Co. (Global Investors)	0.56
Reliance Capital Asset Management Ltd.	0.46	BlackRock Fund Advisors	0.39
William Blair & Co. LLC (Investment Management)	0.37	Schroder Investment Management Ltd.	0.37

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
30 Nov 2012	Vanguard Emerging Markets Stock Index Fund A Series Of Vang	Sell	14516798	274.43

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
11 Sep 2012	Tata Industries Ltd	Sell	211081.00
18 Sep 2012	Tata Industries Ltd	Sell	205888.00
28 Sep 2012	Tata Industries Ltd	Sell	83031.00
08 Oct 2012	Tata Investment Corporation Ltd	Sell	500000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Ashok Leyland	BUY	SO	H	Bajaj Auto	HOLD	SU	L
Eicher Motors	HOLD	SU	M	Exide Industries	BUY	SP	L
Hero MotoCorp	HOLD	SU	H	Mahindra & Mahindra Ltd	BUY	SO	M
Maruti Suzuki India Ltd	BUY	SO	H	Tata Motors Ltd	BUY	SP	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

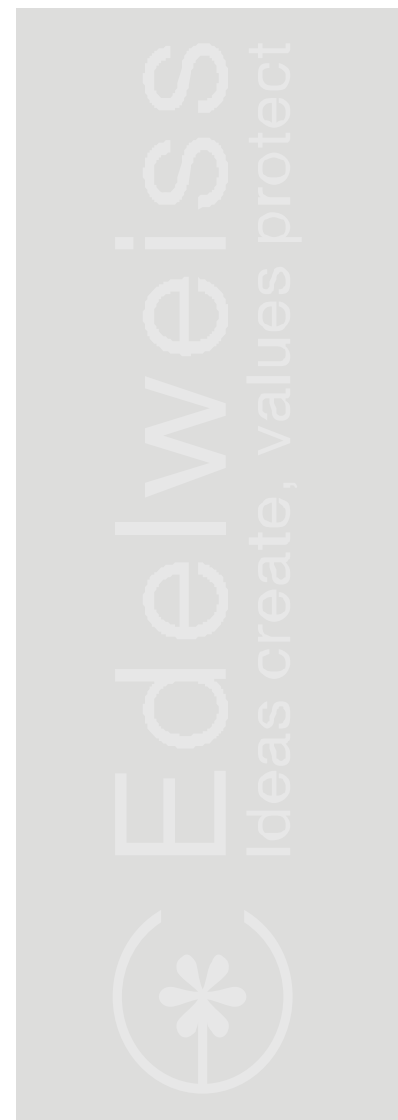
RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Automobiles

Ashok Leyland, Bajaj Auto, Eicher Motors, Exide Industries, Hero MotoCorp, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Tata Motors Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Jul-13	Maruti Suzuki	Suzuki Powertain drives margin surge; <i>Result Update</i>	1,414	Buy
24-Jul-13	Hero Motocorp	Lower expenses, commodity prices boost margin; <i>Result Update</i>	1,754	Hold
22-Jul-13	Bajaj Auto	Good business, but fairly priced; <i>Result Update</i>	1,985	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	127	44	8	180
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	112	54	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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