

# Coromandel International

BUY

INDUSTRY	FERTILISER		
CMP (as on 2 May 2017)	Rs 360		
Target Price	Rs 385		
Nifty	9,314		
Sensex	29,921		
<b>KEY STOCK DATA</b>			
Bloomberg	CRIN IN		
No. of Shares (mn)	292		
MCap (Rs bn) / (\$ mn)	105/1,634		
6m avg traded value (Rs mn)	104		
<b>STOCK PERFORMANCE (%)</b>			
52 Week high / low	Rs 385/215		
	3M	6M	12M
Absolute (%)	9.0	31.7	57.6
Relative (%)	2.7	24.3	40.8
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	61.99		
FIs & Local MFs	10.32		
FPIs	5.16		
Public & Others	22.53		
<i>Source : BSE</i>			

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## Eyes on monsoon

Coromandel International's (CRIN) 4QFY17 revenue came in at Rs 22.6bn (-25% YoY), owing to both lower volumes (-5%, to avoid excess channel inventory) and realisations. However, a greater share of manufactured vs. traded volumes and higher NPK share led to an EBITDA of Rs 2.7bn (+36%). Low interest cost (-17%, special banking arrangement for subsidy) further boosted APAT to Rs 1.4bn (+56%).

A normal SW monsoon and favourable govt. policies led to record sowing in Kharif/Rabi seasons in 2016. In the long term, better farm income, improved irrigation facilities and focus on nutrient balance will drive growth. Lower farmgate prices and a drop in channel inventory will support volumes in FY18.

The industry's key concern was a prior-period overdue subsidy of ~Rs 350bn. This was partially addressed with resources from the FY17 budget, and part of it is expected to reduce in FY18 (budget for both years was Rs 700bn vs. requirement of ~Rs 600bn). We see the situation easing in FY18. More than 50% of the overdues will be paid by FY18.

## Financial Summary (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)	FY16	FY17P	FY18E	FY19E
Net Sales	22,591	30,123	(25.0)	22,352	1.1	114,814	100,308	113,710	122,821
EBITDA	2,724	1,999	36.2	2,372	14.8	7,668	9,827	10,853	12,282
APAT	1,443	924	56.2	1,118	29.0	3,407	4,770	6,013	7,494
Diluted EPS (Rs)	4.9	3.2	56.2	3.8	29.0	11.7	16.4	20.6	25.7
P/E (x)						30.8	22.0	17.5	14.0
EV / EBITDA (x)						16.8	12.8	10.3	8.7
RoE (%)						14.1	17.3	19.5	21.4

Source: Company, HDFC sec Inst Research

Government's focus on balanced usage of nutrients and increase in farmers' income bode well for the fertiliser sector. CRIN remains well placed, owing to its long-term drivers such as (1) Rising share of NPK (2) Growing non-subsidy business and (3) Backward integration for phosphoric acid. Maintain BUY with a TP of Rs 385/sh (15x FY19E EPS).

## Highlights of the quarter

- Total complex fertiliser volumes were 0.76 mnT (-5.1% YoY). CRIN sold lesser volumes to avoid excess channel inventory. Share of manufactured fertilisers was 93%. NPK share (NPK / NPK + DAP) was also high at 79%.
- The non-subsidy business contributed 20% and 26% to revenues and EBITDA respectively.
- Subsidy receivables remain high at Rs 26bn, including special banking arrangement of Rs 5bn. We expect the situation to ease in FY18.
- Near-term outlook:** Monsoon is key for the agricultural sector. The stock will closely track the sentiments around this season. Any further arrangement by the government for prior subsidy will be a big boost.

**Lower volumes (-5% YoY) and lower fertiliser realisations led to revenue decline**

**Robust growth in EBITDA was led by a better product mix and higher manufacturing share**

**Interest cost reduced, owing to a special banking arrangement by government**

**Higher manufacturing volumes and greater share of NPK led to higher gross and EBITDA margin**

### Quarterly Financials Snapshot (Consolidated)

(Rs mn)	4QFY17	4QFY16	YoY (%)	3QFY17	QoQ (%)
<b>Net Sales</b>	<b>22,591</b>	<b>30,123</b>	<b>(25.0)</b>	<b>22,352</b>	<b>1.1</b>
Material Expenses	14,592	20,808	(29.9)	12,265	19.0
Traded Goods	640	1,814	(64.7)	2,827	(77.4)
Employee Expenses	817	748	9.2	785	4.2
Other Expenses	3,818	4,753	(19.7)	4,104	(7.0)
<b>EBITDA</b>	<b>2,724</b>	<b>1,999</b>	<b>36.2</b>	<b>2,372</b>	<b>14.8</b>
Depreciation	254	274	(7.3)	256	(0.9)
<b>EBIT</b>	<b>2,470</b>	<b>1,726</b>	<b>43.1</b>	<b>2,115</b>	<b>16.8</b>
Other Income (Including EO Items)	128	118	8.1	118	8.0
<b>Interest</b>	<b>473</b>	<b>568</b>	<b>(16.8)</b>	<b>529</b>	<b>(10.6)</b>
<b>PBT</b>	<b>2,125</b>	<b>1,276</b>	<b>66.6</b>	<b>1,705</b>	<b>24.6</b>
Tax	679	347	95.4	583	16.3
<b>PAT</b>	<b>1,446</b>	<b>928</b>	<b>55.8</b>	<b>1,122</b>	<b>28.9</b>
Minority Interest	-	-	-	-	-
Share Of Profit /(Loss) JV	(3)	(4)	-	(3)	-
E/o items (adj for tax)	-	-	-	-	-
<b>APAT</b>	<b>1,443</b>	<b>924</b>	<b>56.2</b>	<b>1,118</b>	<b>29.0</b>
<b>AEPS (Rs/sh)</b>	<b>4.9</b>	<b>3.2</b>	<b>56.2</b>	<b>3.8</b>	<b>29.0</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

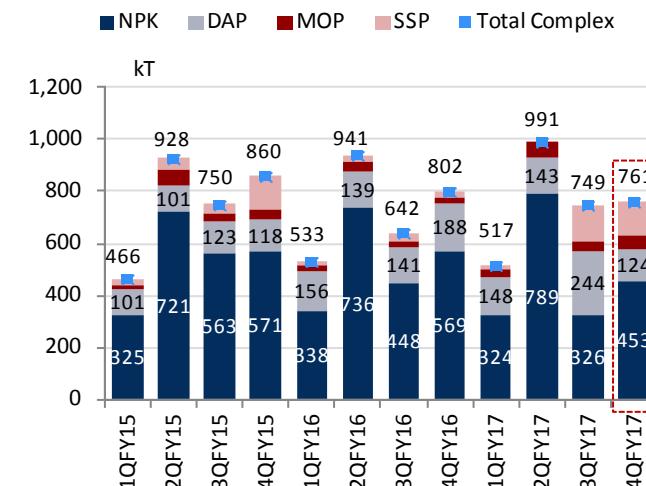
% of Net Sales	4QFY17	4QFY16	YoY (bps)	3QFY17	QoQ (bps)
Material Expenses as % of Net Sales	64.6	69.1	(449)	54.9	972
Traded Goods as % of Net Sales	2.8	6.0	(319)	12.6	(981)
Employee Expenses as % of Net Sales	3.6	2.5	113	3.5	11
Other Expenses as % of Net Sales	16.9	15.8	112	18.4	(146)
<b>EBITDA Margin (%)</b>	<b>12.1</b>	<b>6.6</b>	<b>542</b>	<b>10.6</b>	<b>145</b>
Net Profit Margin (%)	6.4	3.1	332	5.0	138
Tax Rate (%)	31.9	27.2	471	34.2	(228)

Source: Company, HDFC sec Inst Research

**Company sold lower complex volumes in Q4 to avoid excess channel inventory**

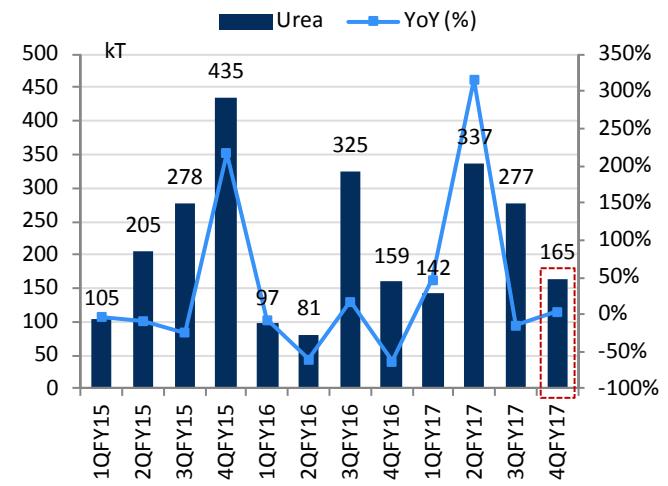
### Fertiliser Volumes Sold (Excluding Liberty Phosphate Volumes)

#### Complex Total (kT)



Source: Urvarak, HDFC sec Inst Research

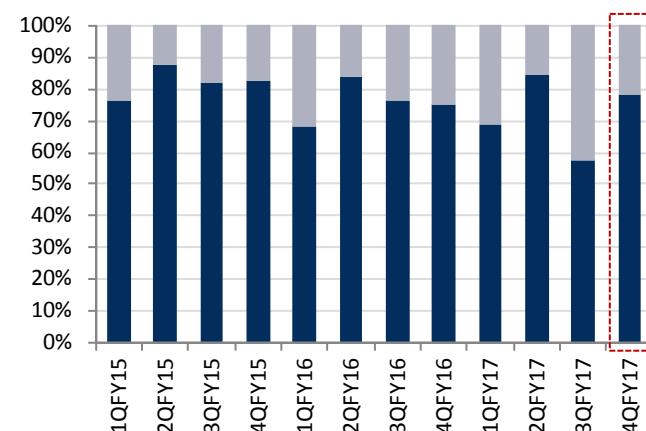
#### Urea (kT)



Source: Urvarak, HDFC sec Inst Research

### Share Of NPK vs. DAP In Complex Fertilisers Volumes

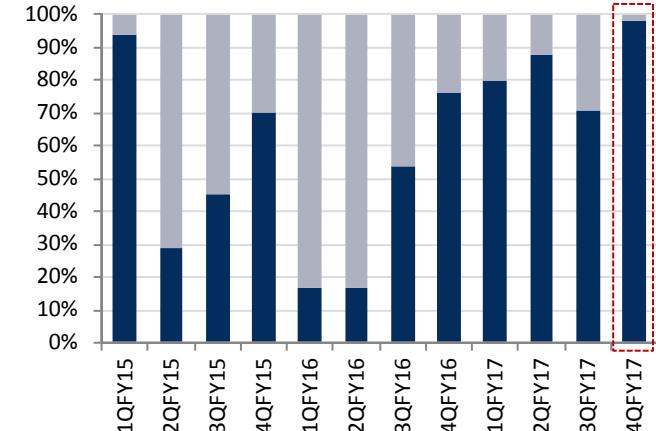
#### NPK/(DAP+NPK)      DAP/(DAP+NPK)



Source: Urvarak, HDFC sec Inst Research

### Share Of Manufacturing vs. Trading In DAP Volumes

#### DAP Manufactured      DAP Traded



Source: Urvarak, HDFC sec Inst Research

**The company is selling higher quantity of NPK fertilisers, which have better margins vs. DAP**

**Higher share of manufactured DAP led to higher margins**

**Minor change in estimates**
**Change In Estimates**

(Rs mn)	FY18 Old	FY18 New	YoY Gr (%)	FY19 Old	FY19 New	YoY Gr (%)
Revenue	119,243	113,710	(4.6)	127,941	122,821	(4.0)
EBITDA	10,506	10,853	3.3	12,018	12,282	2.2
PAT	5,926	6,013	1.5	7,475	7,494	0.3
EPS (Rs/sh)	20.3	20.6	1.3	25.7	25.7	0.1

Source: HDFC sec Inst Research

**Assumption**

Volumes (mT)	FY14	FY15	FY16	FY17P	FY18E	FY19E
<b>Manufactured</b>	<b>2.31</b>	<b>2.95</b>	<b>2.94</b>	<b>2.91</b>	<b>3.20</b>	<b>3.54</b>
NPK	1.62	2.13	2.09	1.98	2.21	2.49
DAP	0.59	0.26	0.27	0.45	0.46	0.47
SSP	0.11	0.56	0.58	0.48	0.53	0.59
<b>Traded</b>	<b>0.17</b>	<b>0.32</b>	<b>0.48</b>	<b>0.24</b>	<b>0.23</b>	<b>0.23</b>
DAP	0.04	0.16	0.36	0.06	0.06	0.06
NPK	0.00	0.00	0.00	-	-	-
MOP	0.12	0.15	0.13	0.18	0.17	0.17
<b>Complex total</b>	<b>2.48</b>	<b>3.27</b>	<b>3.42</b>	<b>3.15</b>	<b>3.43</b>	<b>3.77</b>
YoY Gr (%)	1.2	32.1	4.6	(8.1)	8.8	10.0
Urea	0.83	1.02	0.66	0.92	0.85	0.85
<b>Fertilisers total</b>	<b>3.31</b>	<b>4.30</b>	<b>4.09</b>	<b>4.07</b>	<b>4.28</b>	<b>4.62</b>
Mfd/total complex	93%	90%	86%	92%	93%	94%

	FY14	FY16	FY16	FY17P	FY18E	FY19E
<b>Nutrient-based subsidy (Rs/kg)</b>						
N	20.9	20.9	20.9	15.9	19.0	19.0
P	18.7	18.7	18.7	13.2	12.0	12.0
K	18.8	15.5	15.5	15.5	12.4	12.4
S	1.7	1.7	1.7	2.0	2.2	2.2
<b>Raw Material Price (US\$/t)</b>						
Phosphoric Acid	670	715	800	570	590	590
Ammonia	470	550	425	300	350	360
Rock Phosphate	150	140	150	150	150	150
MOP	427	335	330	230	265	265
Sulphur	180	140	150	150	150	150
<b>Farmgate price (Rs/t)</b>						
DAP	21,865	22,262	22,662	20,662	20,862	20,862
NPK	18,360	19,058	19,358	17,858	18,408	18,408
SSP	6,584	5,644	5,644	5,644	5,644	5,644
MOP	16,192	18,192	15,692	11,492	11,492	11,492

Source: Company, Urvarak, FAI, HDFC sec Inst Research

**Peer Valuation**

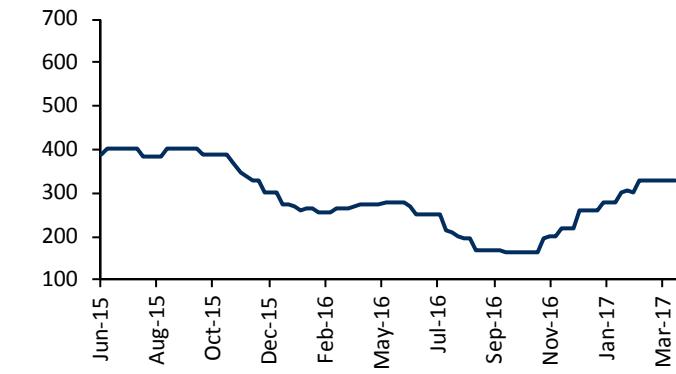
	Mcap (Rs bn)	CMP (Rs/sh)	Rating	TP (Rs/sh)*	EPS (Rs/sh)			P/E (x)			P/BV (x)			ROE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
<b>AGROCHEMICALS</b>																
UPL	408.2	805	NEU	780	35.6	40.0	48.8	22.6	20.1	16.5	5.5	4.6	3.7	27.2	24.8	24.9
PI Industries	118.4	864	BUY	951	31.6	32.1	37.9	27.4	26.9	22.8	7.8	6.3	5.1	32.1	25.8	24.7
Rallis India	46.5	239	BUY	280	9.6	11.0	14.0	24.9	21.6	17.1	4.2	3.7	3.3	18.7	18.2	20.3
Dhanuka Agritech	45.0	917	BUY	881	25.3	31.9	40.1	36.2	28.7	22.9	9.3	7.6	6.2	25.7	29.0	29.8
Insecticides India	13.0	630	BUY	670	26.5	33.2	41.9	23.8	19.0	15.0	2.8	2.5	2.2	12.6	14.0	15.4
<b>FERTILISERS</b>																
Coromandel Int	104.9	360	BUY	385	16.4	20.6	25.7	22.0	17.5	14.0	3.6	3.2	2.8	17.3	19.5	21.4
Chambal Fertilisers	41.9	101	BUY	100	9.7	9.8	10.0	10.4	10.3	10.1	1.6	1.4	1.3	15.9	14.4	13.2
<b>CHEMICALS</b>																
SRF Ltd	101.6	1,769	NEU	1,663	85.0	93.8	110.9	20.8	18.8	15.9	3.3	2.9	2.5	17.1	16.5	17.1
Vinati Organics	51.6	833	BUY	848	26.1	33.9	38.6	31.9	24.6	21.6	6.7	5.5	4.5	22.7	24.5	23.0
Navin Fluorine	29.4	3,002	NEU	3,300	113.4	137.8	165.0	26.5	21.8	18.2	3.8	3.4	3.0	15.8	16.6	17.5

Source: Company, HDFC sec Inst Research, \*as per previous published report

***There is a sharp fall in all fertilisers/RM prices in FY17 vs. FY16. There has been an equivalent cut in subsidies and farmgate prices of complex fertilisers***

***Prices of ammonia and phos acid have started strengthening from 4QFY17***

#### Ammonia (USD/T)



#### Urea (USD/T)



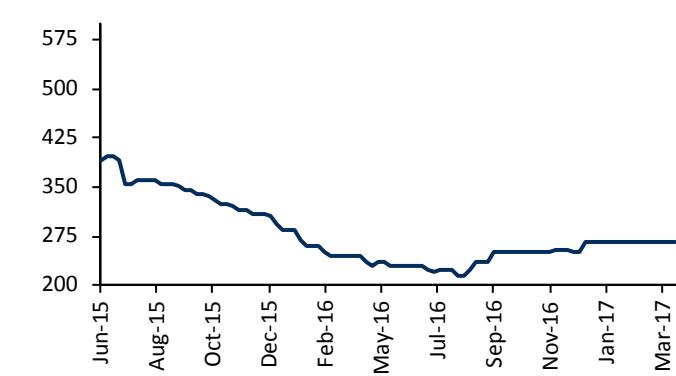
#### Phosphoric Acid (USD/T)



#### DAP (USD/T)



#### MOP (USD/T)



Source: Bloomberg, HDFC sec Inst Research

**Income Statement (Consolidated)**

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
<b>Net Revenues</b>	<b>112,450</b>	<b>114,191</b>	<b>99,766</b>	<b>113,158</b>	<b>122,258</b>
<b>Growth %</b>	<b>12.5</b>	<b>1.5</b>	<b>(12.6)</b>	<b>13.4</b>	<b>8.0</b>
Raw Material	67,010	66,541	58,908	63,376	70,277
Traded Goods	19,215	20,690	12,301	19,826	19,826
Employee Expenses	2,779	2,919	3,108	3,310	3,641
Other Expenses	15,526	16,997	16,163	16,344	16,795
<b>Operating Profit</b>	<b>7,920</b>	<b>7,044</b>	<b>9,286</b>	<b>10,301</b>	<b>11,719</b>
<b>Operating Profit Margin %</b>	<b>7.5</b>	<b>6.7</b>	<b>9.8</b>	<b>9.5</b>	<b>10.0</b>
Other Operating Income	615	624	541	552	563
<b>EBIDTA</b>	<b>8,535</b>	<b>7,668</b>	<b>9,827</b>	<b>10,853</b>	<b>12,282</b>
<b>EBIDTA Margin (%)</b>	<b>7.6</b>	<b>6.7</b>	<b>9.8</b>	<b>9.6</b>	<b>10.0</b>
<b>EBIDTA Growth %</b>	<b>6.0</b>	<b>(10.2)</b>	<b>28.2</b>	<b>10.4</b>	<b>13.2</b>
Depreciation	1,046	1,061	1,007	1,010	1,058
<b>EBIT</b>	<b>7,489</b>	<b>6,607</b>	<b>8,820</b>	<b>9,843</b>	<b>11,223</b>
Other Income	527	915	548	641	757
<b>Interest</b>	<b>2,096</b>	<b>2,209</b>	<b>2,238</b>	<b>1,556</b>	<b>836</b>
<b>PBT</b>	<b>5,920</b>	<b>5,312</b>	<b>7,130</b>	<b>8,929</b>	<b>11,145</b>
Tax	1,902	1,716	2,353	2,902	3,622
<b>RPAT</b>	<b>4,018</b>	<b>3,596</b>	<b>4,777</b>	<b>6,027</b>	<b>7,523</b>
Minority Interest	-	22	7	14	28
EO (Loss) / Profit (Net Of Tax)	(26)	168	-	-	-
<b>APAT</b>	<b>4,044</b>	<b>3,407</b>	<b>4,770</b>	<b>6,013</b>	<b>7,494</b>
<b>APAT Growth %</b>	<b>10.8</b>	<b>(15.8)</b>	<b>40.0</b>	<b>26.1</b>	<b>24.6</b>
<b>AEPS</b>	<b>13.9</b>	<b>11.7</b>	<b>16.4</b>	<b>20.6</b>	<b>25.7</b>
<b>EPS Growth %</b>	<b>10.8</b>	<b>(15.8)</b>	<b>40.0</b>	<b>26.1</b>	<b>24.6</b>

Source: Company, HDFC sec Inst Research

**Balance Sheet (Consolidated)**

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
<b>Share Capital</b>	291	291	292	292	292
Reserves	21,729	26,048	28,616	32,377	37,083
<b>Total Shareholders' Funds</b>	<b>22,020</b>	<b>26,340</b>	<b>28,908</b>	<b>32,669</b>	<b>37,375</b>
Minority Interest	-	-	-	-	-
Long-term Debt	668	441	-	-	-
Short-term Debt	22,210	25,826	22,284	12,284	6,284
<b>Total Debt</b>	<b>22,878</b>	<b>26,267</b>	<b>22,284</b>	<b>12,284</b>	<b>6,284</b>
Deferred Taxes	1,875	1,679	1,495	1,495	1,495
Long-term Provisions & Others	468	302	256	256	256
<b>TOTAL SOURCES OF FUNDS</b>	<b>47,242</b>	<b>54,587</b>	<b>52,943</b>	<b>46,704</b>	<b>45,410</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>13,793</b>	<b>13,300</b>	<b>13,355</b>	<b>13,545</b>	<b>13,686</b>
CWIP	587	446	274	274	274
Goodwill	3	4	3	3	3
<b>Investments</b>	<b>3,520</b>	<b>4,769</b>	<b>3,884</b>	<b>3,884</b>	<b>3,884</b>
LT Loans & Advances	567	825	568	568	568
<b>Total Non-current Assets</b>	<b>18,470</b>	<b>19,344</b>	<b>18,083</b>	<b>18,273</b>	<b>18,415</b>
Inventories	22,592	23,458	17,246	20,250	21,872
Debtors	14,464	16,419	16,217	17,134	18,507
Cash & Equivalents	3,178	1,981	1,680	5,425	4,535
Other Current Assets	24,913	30,617	33,225	22,494	21,574
<b>Total Current Assets</b>	<b>65,147</b>	<b>72,474</b>	<b>68,367</b>	<b>65,304</b>	<b>66,489</b>
Creditors	30,880	32,329	29,345	32,711	35,332
Other Current Liabilities	5,496	4,901	4,162	4,162	4,162
<b>Total Current Liabilities</b>	<b>36,375</b>	<b>37,230</b>	<b>33,508</b>	<b>36,873</b>	<b>39,494</b>
<b>Net Current Assets</b>	<b>28,772</b>	<b>35,244</b>	<b>34,859</b>	<b>28,431</b>	<b>26,995</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>47,242</b>	<b>54,587</b>	<b>52,943</b>	<b>46,704</b>	<b>45,410</b>

Source: Company, HDFC sec Inst Research

**Cash Flow (Consolidated)**

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	5,920	5,312	7,130	8,929	11,145
Non-operating & EO Items	680	(665)	(548)	(641)	(757)
Interest Expenses	2,096	2,209	2,238	1,556	836
Depreciation	1,046	1,061	1,007	1,010	1,058
Working Capital Change	(7,456)	(6,561)	255	10,174	545
Tax Paid	(1,425)	(1,878)	(2,432)	(2,902)	(3,622)
<b>OPERATING CASH FLOW ( a )</b>	<b>861</b>	<b>(521)</b>	<b>7,650</b>	<b>18,126</b>	<b>9,205</b>
Capex	(921)	(413)	(889)	(1,200)	(1,200)
<b>Free Cash Flow (FCF)</b>	<b>(60)</b>	<b>(933)</b>	<b>6,761</b>	<b>16,926</b>	<b>8,005</b>
Investments	(104)	(1,249)	886	-	-
Non-operating Income	566	665	548	641	757
Others	(1,701)	-	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,161)</b>	<b>(997)</b>	<b>545</b>	<b>(559)</b>	<b>(443)</b>
Debt Issuance/(Repaid)	3,693	5,206	(3,983)	(10,000)	(6,000)
Interest Expenses	(2,096)	(2,209)	(2,238)	(1,556)	(836)
<b>FCFE</b>	<b>1,537</b>	<b>2,063</b>	<b>540</b>	<b>5,370</b>	<b>1,170</b>
Share Capital Issuance	8	-	0	-	-
Dividend	(1,625)	(1,363)	(1,706)	(2,251)	(2,788)
Others	(621)	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(642)</b>	<b>1,633</b>	<b>(7,927)</b>	<b>(13,807)</b>	<b>(9,624)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(1,941)</b>	<b>115</b>	<b>268</b>	<b>3,760</b>	<b>(862)</b>
EO Items, Others	396	(1,313)	(568)	-	-
Closing Cash & Equivalents	3,178	1,981	1,680	5,425	4,535

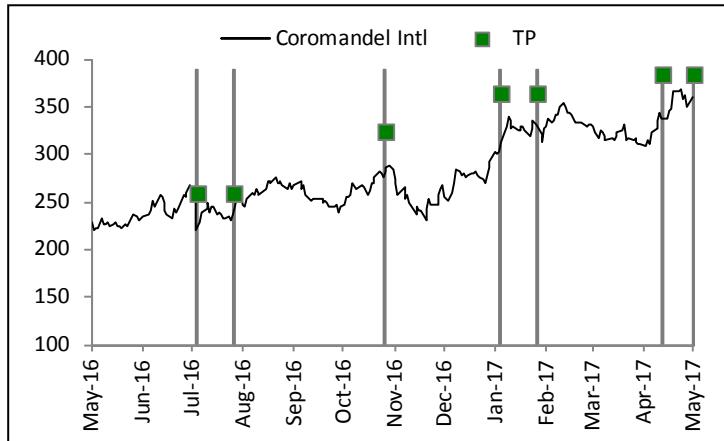
Source: Company, HDFC sec Inst Research

**Key Ratios**

	FY15	FY16	FY17P	FY18E	FY19E
<b>PROFITABILITY %</b>					
GPM	23.7	24.0	29.0	26.8	26.6
EBITDA Margin	7.5	6.7	9.8	9.5	10.0
EBIT Margin	6.7	5.8	8.8	8.7	9.2
APAT Margin	3.6	3.0	4.8	5.3	6.1
<b>RoE</b>	<b>18.0</b>	<b>14.1</b>	<b>17.3</b>	<b>19.5</b>	<b>21.4</b>
Core RoCE	14.2	10.4	12.5	15.7	20.4
RoCE	12.5	9.8	11.7	14.2	17.5
<b>EFFICIENCY</b>					
Tax Rate %	32.1	32.3	33.0	32.5	32.5
Fixed Asset Turnover Ratio (x)	5.1	5.0	4.2	4.6	4.7
Inventory (days)	73	75	63	65	65
Debtor (days)	47	52	59	55	55
Other Current Assets (days)	80	97	121	72	64
Payables (days)	100	103	107	105	105
Other Curr Liab & Provs (days)	18	16	15	13	12
Cash Conversion Cycle (days)	83	106	121	74	67
Debt/EBITDA (x)	2.7	3.4	2.3	1.1	0.5
Net D/E	0.9	0.9	0.7	0.2	0.0
Interest Coverage	3.8	3.3	4.2	6.7	14.3
<b>PER SHARE DATA (Rs/sh)</b>					
EPS	13.9	11.7	16.4	20.6	25.7
CEPS	17.4	15.9	19.8	24.1	29.3
DPS	4.5	4.0	5.0	6.6	8.2
BV	75.6	90.4	99.1	112.0	128.1
<b>VALUATION</b>					
P/E	26.0	30.8	22.0	17.5	14.0
P/BV	4.8	4.0	3.6	3.2	2.8
EV/EBITDA	14.6	16.8	12.8	10.3	8.7
OCF/EV (%)	0.7	(0.4)	6.1	16.2	8.6
FCF/EV (%)	1.2	1.6	0.4	4.8	1.1
FCFE/Mcap (%)	1.5	2.0	0.5	5.1	1.1
Dividend Yield (%)	1.3	1.1	1.4	1.8	2.3

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
7-Jul-16	221	BUY	260
28-Jul-16	237	BUY	260
27-Oct-16	282	BUY	325
6-Jan-17	313	BUY	365
27-Jan-17	332	BUY	365
13-Apr-17	345	BUY	385
2-May-17	360	BUY	385

## Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

**Disclosure:**

We, Satish Mishra, PGDM, & Deepak Kolhe, MBA, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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